

MARINE PRODUCTS CORP  
Form 10-K  
March 06, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013  
Commission File No. 1-16263

MARINE PRODUCTS CORPORATION  
Delaware 58-2572419  
(State of Incorporation) (I.R.S. Employer Identification No.)  
2801 BUFORD HIGHWAY, NE SUITE 520  
ATLANTA, GEORGIA 30329  
(404) 321-7910

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, \$0.10 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 aggregate market value of Marine Products Corporation common stock held by non-affiliates on June 30, 2013, the last business day of the registrant’s most recent second fiscal quarter, was \$84,277,214 based on the closing price on the New York Stock Exchange on June 30, 2013 of \$8.02 per share.

Marine Products Corporation had 38,209,302 shares of common stock outstanding as of February 14, 2014.

Documents Incorporated by Reference

Portions of the Proxy Statement for the 2014 Annual Meeting of Stockholders of Marine Products Corporation are incorporated by reference into Part III, Items 10 through 14 of this report.

## PART I

References in this document to “we,” “our,” “us,” “Marine Products,” or “the Company” mean Marine Products Corporation (“MPC”) and its subsidiaries, Chaparral Boats, Inc. (“Chaparral”) and Robalo Acquisition Company LLC (“Robalo”), collectively or individually, except where the context indicates otherwise.

### Forward-Looking Statements

Certain statements made in this report that are not historical facts are “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include, without limitation, the Company’s belief that there are several alternative suppliers of fiberglass that could provide adequate quality and quantities of this raw material at acceptable prices; the Company’s plans to continue purchasing sterndrive engines through the ABA; the Company’s belief that the level of dealer inventories of its new boat models are appropriate; management’s belief that the Company is well positioned to take advantage of current industry conditions; the Company’s belief that the current unit order backlog is at an appropriate level; the Company’s plan to capture additional market share as purchasers of entry level models purchase larger models in the future; the Company’s belief that its corporate infrastructure, marketing and sales capabilities, financial strength and nationwide presence enables it to compete effectively against its competitors; the Company’s belief that it will not incur any material capital expenditures to comply with existing environmental or safety regulations; the Company’s lack of confidence that it will be able to institute sufficient price increases to its dealers to compensate for increased materials costs or that the Company will be able to implement manufacturing strategies that will significantly reduce usage of raw materials that will compensate for any increases in materials costs; the Company’s belief that the ultimate outcome of any litigation will not have a material effect on its results of operations; the Company’s plan to continue to pay cash dividends subject to the earnings and financial condition of the Company and other relevant factors; the Company’s plans to have its jet boat product line available to its dealer network during the 2014 retail selling season; the Company’s belief that recreational boating retail demand in many segments of the industry is improving; the Company’s belief that there is improved demand from consumers who have delayed purchasing a boat over the past few years due to economic uncertainty; the Company’s belief that improvements in retail boat sales will be modest due to lackluster economic improvement; the Company’s belief that declining fuel prices should encourage consumers to participate in recreational boating; the Company’s belief that recent improvements within selected housing markets could have positive effects on sales; the Company’s belief that the recreational boating industry promotional program has incrementally benefited the industry and Marine Products; the Company’s plans to introduce a jet boat during its 2014 model year, and that these jet boat models will expand its customer base and leverage its strong dealer network and reputation for quality and styling; the Company’s belief that its liquidity, capitalization and cash expected to be generated from operations, will provide sufficient capital to meet the Company’s requirements for at least the next twelve months; the Company’s expectations about capital expenditures during 2014; the Company’s expectation about contributions to its pension plan in 2014; the Company’s estimate of the amount and timing of future contractual obligations; the Company’s judgments and estimates with respect to its critical accounting policies; the Company’s expectation about the impact of new accounting pronouncements on the Company’s consolidated financial statements; and the Company’s expectation regarding market risk of its investment portfolio.

The words “may,” “should,” “will,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “project,” “estimate,” expressions used in this document that do not relate to historical facts are intended to identify forward-looking statements. Such statements are based on certain assumptions and analyses made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. We caution you that such statements are only predictions and not guarantees of future performance and that actual results, developments and business decisions may differ from those envisioned by the

forward-looking statements. Risk factors that could cause such future events not to occur as expected include the following: economic conditions, unavailability of credit and possible decreases in the level of consumer confidence impacting discretionary spending, business interruptions due to adverse weather conditions, increased interest rates, unanticipated changes in consumer demand and preferences, deterioration in the quality of Marine Products' network of independent boat dealers or availability of financing of their inventory, our ability to insulate financial results against increasing commodity prices, the impact of rising gasoline prices and a weak housing market on consumer demand for our products, and competition from other boat manufacturers and dealers. We caution you that such statements are only predictions and not guarantees of future performance and that actual results, developments and business decisions may differ from those envisioned by the forward-looking statements. See "Risk Factors" on page 12 for a discussion of factors that may cause actual results to differ from our projections.

## Item 1. Business

Marine Products manufactures fiberglass motorized boats distributed and marketed through its independent dealer network. Marine Products' product offerings include Chaparral sterndrive pleasure boats and Robalo outboard sport fishing boats.

### Organization and Overview

Marine Products is a Delaware corporation incorporated on August 31, 2000, in connection with a spin-off from RPC, Inc. (NYSE: RES) ("RPC"). Effective February 28, 2001, RPC accomplished the spin-off by contributing 100 percent of the issued and outstanding stock of Chaparral to Marine Products, a newly formed wholly owned subsidiary of RPC, and then distributing the common stock of Marine Products to RPC stockholders.

Marine Products designs, manufactures and sells recreational fiberglass powerboats in the sportboat, deckboat, cruiser, sport yacht and sport fishing markets. The Company sells its products to a network of 134 domestic and 76 international independent authorized dealers. Marine Products' mission is to enhance its customers' boating experience by providing them with high quality, innovative powerboats. The Company intends to remain a leading manufacturer of recreational powerboats for sale to a broad range of consumers worldwide.

The Company manufactures Chaparral sterndrive pleasure boats including H2O Sport and Fish & Ski boats, SSi and SSX Sportboats, Sunesta Sportdecks and Xtreme Tow Boats, Signature Cruisers and Robalo outboard sport fishing boats. The most recent available industry statistics [source: Statistical Surveys, Inc. report dated September 30, 2013] indicate that Chaparral is the largest manufacturer of sterndrive boats in lengths from 18 to 35 feet in the United States.

Chaparral was founded in 1965 in Ft. Lauderdale, Florida. Chaparral's first boat was a 15-foot tri-hull design with a retail price of less than \$1,000. Over time Chaparral grew by offering exceptional quality and consumer value. In 1976, Chaparral moved to Nashville, Georgia, where a manufacturing facility of a former boat manufacturing company was available for purchase. This provided Chaparral an opportunity to obtain additional manufacturing space and access to a trained workforce. With almost 49 years of boatbuilding experience, Chaparral continues to improve the design and manufacturing of its product offerings to meet the growing needs of discriminating recreational boaters.

Robalo was founded in 1969 and its first boat was a 19-foot center console salt-water fishing boat, among the first of this type of boat to have an "unsinkable" hull. The Company believes that Robalo's share of the outboard sport fishing boat market is approximately three percent.

## Products

Marine Products distinguishes itself by offering a wide range of products to the family recreational and cruiser markets through its Chaparral brand and to the sport fishing market through its Robalo brand.

The following table provides a brief description of our product lines and their particular market focus:

Product Line	Number of Models	Overall Length	Approximate Retail Price Range	Description
Chaparral – H2O Sport Series	6	18 -21	\$25,000 - \$49,000	Fiberglass multipurpose runabouts. Sport and Ski & Fish series offers an affordable, entry-level product with a national fixed retail price including a standard engine and single axle trailer. Marketed to both experienced and value-conscious buyers.
Chaparral - SSi Wide Tech™	5	20 -25	\$47,000 - \$105,000	Fiberglass closed deck runabouts. Encompasses affordable, entry-level to mid-range and larger sportboats. Marketed as high value runabouts for family groups. Wide Tech™ is marketed as an affordable, entry-level to mid-range pleasure boat with the handling of a runabout, the style of a sportboat and the roominess of a cruiser.
Chaparral - SSX Sportdeck	6	26 -32	\$96,000 - \$337,000	Fiberglass bowrider crossover sportboats that combine the ride of a sportboat and the usefulness of a deckboat. Marketed as high value runabouts for family groups.
Chaparral – Sunesta and Xtreme Tow Boat	9	20 -28	\$63,000 - \$180,000	Fiberglass pleasure boats with a high-performance hull design and updated styling. Xtreme, with Wide Tech™ innovation, is marketed as a high-performance wakeboard/ski boat with technical features and styling that appeal to wakeboard and ski enthusiasts.
Chaparral - Signature Cruiser	5	27 -37	\$105,000 - \$481,000	Fiberglass, accommodation-focused cruisers. Marketed to experienced boat owners through trade magazines and boat show exhibitions.
Robalo - Sport Fishing Boat	14	18 -30	\$30,000 - \$298,000	Sport fishing boats for large freshwater lakes or saltwater use. Marketed to experienced fishermen. Two models are marketed to first-time and value-conscious buyers with four additional models promoted at a national fixed retail price and standard features. A bay boat series, also with

national fixed retail prices, was introduced in 2013 to include several different sized models.

## Manufacturing

Marine Products' manufacturing facilities are located in Nashville, Georgia and Valdosta, Georgia. The Company idled its plant located in Valdosta, Georgia in response to declines in production volumes in a prior year. Marine Products utilizes five different plants to, among other things, manufacture interiors, design new models, create fiberglass hulls and decks, and assemble various end products. Quality control is conducted throughout the manufacturing process. The Company's manufacturing operations are ISO 9001: 2008 certified, which is an international designation of design, manufacturing, and customer service processes. ISO 9001: 2008 surpasses previous ISO designations. Management believes Chaparral is the largest sterndrive boat manufacturing brand to hold the ISO 9001: 2008 certification. When fully assembled and inspected, the boats are loaded onto either company-owned trailers or third-party marine transport trailers for delivery to dealers. The manufacturing process begins with the design of a product to meet dealer and customer needs. Plugs are constructed in the research and development phase from designs. Plugs are used to create a mold from which prototype boats can be built. Adjustments are made to the plug design until acceptable parameters are met. The final plug is used to create the necessary number of production molds. Molds are used to produce the fiberglass hulls and decks. Fiberglass components are made by applying the outside finish or gel coat to the mold, then numerous layers of fiberglass and resin are applied during the lamination process over the gel coat. After curing, the hull and deck are removed from the molds and are trimmed and prepared for final assembly, which includes the installation of electrical and plumbing systems, engines, upholstery, accessories and graphics.

## Product Warranty

For most of our Chaparral products, Marine Products provides a lifetime limited structural hull warranty against defects in material and workmanship for the original purchaser, and a five-year limited structural hull warranty for one subsequent owner. Additionally, a non-transferable five-year limited structural deck warranty against defects in materials and workmanship is available to the original owner. Warranties on additional items are provided for periods of one to five years.

For our Robalo products, Marine Products provides a transferable ten-year limited structural hull warranty against defects in material and workmanship to the original owner, and a five-year limited hull warranty to one subsequent owner. Additionally, Marine Products provides a transferable one-year limited warranty on other components.

The engine manufacturers for our Robalo and Chaparral products warrant engines included in the boats as well.

## Suppliers

Marine Products' two most significant components used in manufacturing its boats, based on cost, are engines and fiberglass. For each of these, there is currently an adequate supply available in the market. Marine Products has not experienced any material shortages in any of these products. Temporary shortages, when they do occur, usually involve manufacturers of these products adjusting model mixes, introducing new product lines or limiting production in response to an industry-wide reduction in boat demand. Marine Products obtains most of its fiberglass from a leading domestic supplier. Marine Products believes that there are several alternative suppliers if this supplier fails to provide adequate quality or quantities at acceptable prices.

Marine Products does not manufacture the engines installed in its boats. Engines are generally specified by the dealers at the time of ordering, usually on the basis of anticipated customer preferences or actual customer orders. Sterndrive engines are purchased through the American Boatbuilders Association ("ABA"), which has entered into engine supply



arrangements with Mercury Marine and Volvo Penta, the two currently existing suppliers of sterndrive engines. These arrangements contain incentives and discount provisions, which may reduce the cost of the engines purchased, if specified purchase volumes are met during specified periods of time. Although no minimum purchases are required, Marine Products expects to continue purchasing sterndrive engines through the ABA on a voluntary basis in order to receive volume-based purchase discounts. Marine Products does not have a long-term supply contract with the ABA. Marine Products has an outboard engine supply contract with Yamaha and a jet engine supply contract with BRP US Inc. These engine supply arrangements were not negotiated through the ABA. In the event of a sudden and extended interruption in the supply of engines from these suppliers, our sales and profitability could be negatively impacted. See “Risk Factors” below.

Marine Products uses other raw materials in its manufacturing processes. Among these are stainless steel, copper and resins made from hydrocarbon feedstocks. In response to global economic uncertainties, the prices of these commodities have fluctuated significantly over the past several years. During 2012 and 2013, these prices stabilized, but at historically high levels. See “Inflation” below.

## Sales and Distribution

Domestic sales are made through approximately 74 Chaparral dealers, 17 Robalo dealers and 43 dealers that sell both brands located in markets throughout the United States. Marine Products also has 76 international dealers. During 2013 the financial strength of our dealer network continued to improve primarily due to improved availability of floorplan financing. Most of our dealers inventory and sell boat brands manufactured by other companies, including some that compete directly with our brands. The territories served by any dealer are not exclusive to the dealer; however, Marine Products uses discretion in establishing relationships with new dealers in an effort to protect the mutual interests of the existing dealers and the Company. Marine Products' six independent field sales representatives call upon existing dealers and develop new dealer relationships. The field sales representatives are directed by a National Sales Coordinator, who is responsible for developing a full dealer distribution network for the Company's products. The marketing of boats to retail customers is primarily the responsibility of the dealer. Marine Products supports dealer marketing efforts by supplementing local advertising, sales and marketing follow up in boating magazines, and participation in selected regional, national, and international boat show exhibitions. No single dealer accounted for more than 10 percent of net sales during 2013, 2012 or 2011.

Marine Products continues to seek new dealers in many areas throughout the U.S., Europe, South America, Asia, Russia and the Middle East. In general, Marine Products requires payment in full before it will ship a boat overseas. Consequently, there is no credit risk associated with these international sales or risk related to foreign currency fluctuation. The volume of sales to international dealers as a percentage of total net sales declined in 2013 compared to 2012 due to the persistent economic crisis primarily in Europe. International sales demand is also affected by the value of the U.S. dollar relative to other currencies. International net sales as a percentage of total net sales were 17.2 percent in 2013, 20.3 percent in 2012, and 21.4 percent in 2011.

Marine Products' sales orders are indicators of strong interest from its dealers. Historically, dealers have in most cases taken delivery of all their orders. The Company attempts to ensure that its dealers do not accept an excessive amount of inventory by monitoring their inventory levels. Knowledge of inventory levels at the individual dealers facilitates production scheduling with shorter lead times in order to maintain flexibility in the event that adjustments need to be made to dealer shipments. In the past, Marine Products has been able to resell any boat for which an order has been cancelled.

Approximately 46 percent of Marine Products' domestic shipments are made pursuant to "floor plan financing" programs in which Marine Products' subsidiaries participate on behalf of their dealers with major third-party financing institutions. The remaining dealers finance their boat inventory with smaller regional financial institutions in local markets or pay cash. Under these established arrangements with qualified lending institutions, a dealer establishes a line of credit with one or more of these lenders for the purchase of boat inventory for sales to retail customers in their showroom or during boat show exhibitions. In general, when a dealer purchases and takes delivery of a boat pursuant to a floor plan financing arrangement, it draws against its line of credit and the lender pays the invoice cost of the boat directly to Marine Products generally within ten business days. When the dealer in turn sells the boat to a retail customer, the dealer repays the lender, thereby restoring its available credit line. Each dealer's floor plan credit facilities are secured by the dealer's inventory, letters of credit, and perhaps other personal and real property. Until recently, most dealers maintained financing arrangements with more than one lender, although that is less common at the present time, given that there are fewer lenders. In connection with a dealer's floor plan financing arrangements with a qualified lending institution, Marine Products or its subsidiaries have agreed to repurchase inventory which the lender repossesses from a dealer and returns to Marine Products in a "new and unused" condition subject to normal wear and tear, as defined. The contractual agreements that Marine Products or its subsidiaries have with these qualified lenders contain the Company's assumption of specified percentages of the debt obligation on repossessed boats, up to

certain contractually determined dollar limits set by the lender.

The Company currently has an agreement with one of the floor plan lenders whereby the contractual repurchase amount is limited to a maximum of 16 percent of the average net receivables financed by the floor plan lender for our dealers during the prior 12 month period, which was \$7.1 million as of December 31, 2013. The Company has contractual repurchase agreements with additional lenders with an aggregate maximum repurchase obligation of approximately \$6.2 million, with various expiration and cancellation terms of less than one year. The aggregate repurchase obligation with all financing institutions was approximately \$13.3 million as of December 31, 2013. In the event that a dealer defaults on a credit line, the qualified lender may then invoke the manufacturers' repurchase obligation with respect to that dealer. In that event, all repurchase agreements of all manufacturers supplying a defaulting dealer are generally invoked regardless of the boat or boats with respect to which the dealer has defaulted. Unlike Marine Products' obligation to repurchase boats repossessed by qualified lenders, Marine Products is under no obligation to repurchase boats directly from dealers. Marine Products does not sponsor financing programs to the retail consumer; any consumer financing promotions for a prospective boat purchaser would be the responsibility of the dealer.

Marine Products' dealer sales incentive programs are generally designed to promote early replenishment of the stock in dealer inventories depleted throughout the prime spring and summer selling seasons, and to promote the sales of older models in dealer inventory and particular models during specified periods. These programs help to stabilize Marine Products' manufacturing between the peak and off-peak periods, and promote sales of certain models. For the 2014 model year (which commenced July 1, 2013), Marine Products offered its dealers several sales incentive programs based on dollar volumes and timing of dealer purchases. Program incentives offered include sales discounts, retail sales incentives and payment of floor plan financing interest charged by qualified floor plan lenders to dealers generally through April 30, 2014. After the interest payment programs end, interest costs revert to the dealer at rates set by the lender. A dealer makes periodic curtailment payments (principal payments) on outstanding obligations against its dealer inventory as set forth in the floor plan financing agreements between the dealer and its particular lender.

We believe that dealer inventories of our boat models as of December 31, 2013 are appropriate relative to the current level of retail customer demand; 61 percent of dealer inventories are 2014 model year units. The sales order backlog as of December 31, 2013 was approximately 1,003 boats with estimated net sales of approximately \$39.1 million. This represents an approximate 13.6 week backlog based on recent production levels. As of December 31, 2012, the sales order backlog was approximately 809 boats with estimated net sales of \$29.4 million, representing an approximate 11.6 week backlog. The Company will continue to monitor the number of boats in dealer inventory and is prepared to adjust its production levels as it deems necessary to manage dealer inventory levels. The Company typically does not manufacture a significant number of boats for its own inventory. The Company occasionally manufactures boats for its own inventory because the number of boats required for immediate shipment is not always the most efficient number of boats to produce in a given production schedule.

### Research and Development

Essentially the same technologies and processes are used to produce fiberglass boats by all boat manufacturers. The most common method is open-face molding. This is usually a labor-intensive, manual process whereby employees hand spray and apply fiberglass and resin in layers on open molds to create boat hulls, decks and other smaller fiberglass components. This process can result in inconsistencies in the size and weight of parts, which may lead to higher warranty costs. A single open-face mold is typically capable of producing approximately three hulls per week.

Marine Products has been a leading innovator in the recreational boating industry. One of the Company's most innovative designs is the full-length "Extended V-Plane" running surface on its Chaparral boat models. Typically, sterndrive boats have a several foot gap on the bottom rear of the hull where the engine enters the water. With the Extended V-Plane, the running surface extends the full length to the rear of the boat. The benefit of this innovation is more deck space, better planning performance and a more comfortable ride. Although the basic hull designs are similar, the Company has historically introduced a variety of new models each year and periodically replaces, updates or discontinues existing models.

Another hull design is the Hydro Lift™ used on the Robalo boat models. This variable dead rise hull design provides a smooth ride in rough water conditions. It increases the maximum speed obtainable by a given engine horsepower and weight of the boat. Robalo's current models utilize the Hydro Lift™ design and we plan to continue to provide this design on Robalo models.

A bow design known as the Wide Tech™ was first used on the Chaparral Sunesta Wide Tech™ and Xtreme models for the 2008 model year, and is currently being used on Chaparral's SSi Wide Tech™ Sportboats, Sunesta Sportdecks, Xtreme Tow Boats and two Signature Cruisers. The Wide Tech™ bow design allows the models to have the Extended V-Plane hull, with the features and benefits that this hull design offers. In addition, the Wide Tech™ bow design provides a larger seating area, as well as additional storage space, in the front of the boat. Furthermore, it allows the models to have a non-skid walkway on the bow, which makes entering and leaving the boat easier than in other boat models. This bow design may be incorporated on other Chaparral boat models in subsequent model years.

In support of its new product development efforts, Marine Products incurred research and development costs of \$1.1 million in 2013, \$768 thousand in 2012, and \$789 thousand in 2011.

### Industry Overview

The recreational marine market in the United States is a mature market, with 2012 (latest data available to us) retail expenditures of approximately \$36 billion spent on new and used boats, motors and engines, trailers, accessories and

other associated costs as estimated by the National Marine Manufacturers Association (“NMMA”). Pleasure boats compete for consumers’ limited free time with all other leisure activities.

The NMMA conducts various surveys of pleasure boat industry trends, and the most recent surveys indicate that 88 million adults in the United States participated in recreational boating in 2012, an increase of 6 percent compared to the prior year, although non-active boat owners cite lack of leisure time and increased operational and fuel costs as the primary reasons for not using their boats. The percentage of American consumers that participated in recreational boating during 2012 was the highest of any year in the NMMA’s survey period. There are currently approximately 17 million boats owned in the United States, including outboard, inboard, sterndrive, sailboats, personal watercraft, and miscellaneous (canoes, kayaks, rowboats, etc.). Marine Products competes in the sterndrive and inboard boating category with its five lines of Chaparral boats, and in the outboard boating category with its Robalo sport fishing boats. Approximately 77 percent of the Company’s unit sales in 2013 were sterndrive boats compared to 85 percent in 2012.

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Industry sales of new sterndrive boats in the United States during 2013 totaling 13,477 (source: Info-Link Technologies, Inc.) accounted for approximately 25 percent of the total new fiberglass powerboats sold between 18 and 35 feet in hull length. Sales of sterndrive boats had an estimated total retail value of \$785 million, or an average retail price per boat of approximately \$58,000. Management believes that the five largest states for boat sales at the present time are Florida, Texas, Michigan, New York and Louisiana. Marine Products has dealers in each of these states.

The U.S. domestic recreational boating industry includes sales in the segments of new and used boats, motors and engines, trailers, and other boat accessories. The new fiberglass boat market segment with hull lengths of 18 to 35 feet, the primary market segment in which Marine Products competes, represented \$2.5 billion in retail sales during 2013. The table below reflects the estimated sales within this segment by category for 2013 and 2012 (source: Info-Link Technologies, Inc.):

	2013		2012	
	Boats	Sales (\$ B)	Boats	Sales (\$ B)
Sterndrive Boats	13,477	\$0.8	13,959	\$0.7
Outboard Boats	30,541	1.1	26,209	0.9
Inboard Boats	6,591	0.5	5,694	0.4
Jet Boats	2,888	0.1	3,558	0.1
TOTAL	53,497	\$2.5	49,420	\$2.1

Chaparral's products are categorized as sterndrive boats and Robalo's products are categorized as outboard boats. Although industry-wide sterndrive boat unit sales have been declining, the rate of decline in recent years has slowed. Jet boat sales also experienced a decline in 2013, partially due to a major jet boat manufacturer exiting the market. In the four years prior to 2013, jet boat annual sales were consistently between 3,300 and 4,000 units sold. Chaparral hopes to take advantage of this opportunity in the jet boat market when it introduces its jet boat product line, which the Company plans to have available for its dealer network during the 2014 retail selling season.

The recreational boat manufacturing market remains highly fragmented with the exception of Brunswick Corporation, which has acquired and currently operates a number of recreational boat brands. We estimate that the boat manufacturing industry includes approximately 60 sterndrive manufacturers and over 150 outboard boat manufacturers, with the majority representing small, privately held companies with varying degrees of professional management and manufacturing skill. According to estimates provided by Statistical Surveys, Inc., during the nine months ended September 30, 2013 (latest information available), the top five sterndrive manufacturers, which includes Chaparral, have a combined market share of approximately 56 percent; approximately the same as one year ago. Chaparral's market share in units during this nine month period was approximately 13.9 percent, which represents an increase of approximately 2.3 percentage points compared to 11.6 percent during the 12 months ended December 31, 2012. The Company believes that this improvement in market share is due primarily to the success of our value-priced Chaparral H2O models, which are 18, 19 and 21 feet in length.

Several factors influence sales trends in the recreational boating industry, including general economic growth, consumer confidence, household incomes, the availability and cost of financing for our dealers and customers, weather, fuel prices, tax laws, demographics and consumers' leisure time. Also, the value of residential and vacation real estate in coastal and recreational areas influences recreational boat sales. The most recent NMMA surveys indicate that participation in recreational boating has increased, that many boaters participate in boating by using another person's boat, and that retirements of used boats have reduced the size of the total recreational boat fleet. These factors are positive indicators for near-term boat sales. However, these surveys also indicate that many past boating

participants do not currently participate in boating because of high costs and a lack of leisure time. The increases in the cost of certain components, operating costs, and the impact of environmental regulation have increased the cost of boats and boat ownership in recent years, and these trends may continue. Competition from other leisure and recreational activities for available leisure time can also affect sales of recreational boats.

Management believes Marine Products is well positioned to take advantage of the following conditions, which continue to characterize the industry:

labor-intensive manufacturing processes that remain largely unautomated;

increasingly strict environmental standards derived from governmental regulations and customer sensitivities;

a lack of focus on coordinated customer service and support by dealers and manufacturers;

a lack of financial strength among retail boat dealers and many manufacturers; and

a high degree of fragmentation and competition among the large number of sterndrive and outboard recreational boat manufacturers.

## Business Strategies

Recreational boating is a mature industry. According to Info-Link Technologies, Inc., sales of sterndrive boats declined at a compounded annual rate of approximately three percent between 2009 and 2013. During this period, Marine Products experienced a compounded annual growth rate of approximately 39 percent in the number of sterndrive boats sold. The Company has historically grown its boat sales and net sales primarily through increasing market share and by expanding its number of models and product lines. During 2013 the Company's strategy has been to support our dealers' need to maintain a higher level of inventories than in previous years, given relatively stable retail demand and an improved dealer financing environment. At the end of 2013, the Company's dealer inventories were approximately 13 percent higher than they were at the end of 2012, and our unit order backlog remained strong. We believe that higher inventories and the current unit order backlog are appropriate relative to expected retail demand during the 2014 retail selling season. Chaparral has grown its sterndrive market share in the 18 to 35 foot length category from 5.9 percent in fiscal 1996 to 13.9 percent during the nine months ended September 30, 2013 (the most recent information available to us from Statistical Surveys, Inc.). Our market share increased across the breadth of our model sizes during 2013, although market share increased at a higher rate among our smaller boat models.

During 2013, we added two 21 foot H2O models to our line of entry level, value priced boats that were first introduced for the 2012 model year. These models, the Chaparral H2O Sport and Fish & Ski Boats, together with the Robalo R180 and R200, are affordable models with standard features. These models also carry nationally advertised fixed pricing and include a trailer. Marine Products developed these models in order to increase unit sales in a segment in which the Company has an opportunity to increase market share and improve profitability. Furthermore, we hope to capture additional market share as purchasers of these entry-level models purchase larger Chaparral or Robalo models in the future. These models were primarily responsible for increases in our net sales, gross profit, operating profit, and net income. They were also partially responsible for our increases in market share. Chaparral's market share in the 18 to 35 foot category increased approximately 2.3 percentage points in 2013.

These new models align with Marine Products' overall operating strategy, which emphasizes innovative designs and manufacturing processes, and the production of a high quality product, while also seeking to lower manufacturing costs through increased efficiencies in our facilities. In the current environment, this strategy also includes the production of lower-priced, entry level models which appeal to a value-conscious consumer who wants an updated, high quality product. In addition, we seek opportunities to leverage our buying power through economies of scale. Management believes its membership in the ABA positions Marine Products as a significant third-party customer of major suppliers of sterndrive engines. Marine Products' Chaparral subsidiary is a founding member of the ABA, which collectively represents 12 independent boat manufacturers that have formed a buying group to pool their purchasing power in order to achieve improved pricing on engines, fiberglass, resin and many other components. Marine Products intends to continue seeking the most advantageous purchasing arrangements from its suppliers.

Our marketing strategy seeks to increase market share by enabling Marine Products to expand its presence by building dedicated sales, marketing and distribution systems. Marine Products has a distribution network of 210 dealers located throughout the United States and several international markets. Our strategy is to increase selectively the quantity of our dealers, and to improve the quality and effectiveness of our entire dealer network. Marine Products seeks to capitalize on its strong dealer network by educating its dealers on the sales and servicing of our products and helping them provide more comprehensive customer service, with the goal of increasing customer satisfaction, customer retention and future sales. Marine Products provides promotional and incentive programs to help its dealers increase product sales and customer satisfaction.



A component of Marine Products' overall strategy is to consider making strategic acquisitions in order to complement existing product lines, expand its geographic presence in the marketplace and strengthen its capabilities depending upon availability, price and complementary product lines. We constantly review potential acquisition targets and intend to continue doing so in the future.

## Competition

The recreational boat industry is highly fragmented, resulting in intense competition for customers, dealers and boat show exhibition space. There is significant competition both within markets we currently serve and in new markets that we may enter. Marine Products' brands compete with several large national or regional manufacturers that have substantial financial, marketing and other resources. However, we believe that our corporate infrastructure and marketing and sales capabilities, in addition to our financial strength, and our nationwide presence, enable us to compete effectively against these companies. In each of our markets, Marine Products competes on the basis of responsiveness to customer needs, the quality and range of models offered, and the competitive pricing of those models. Additionally, Marine Products faces general competition from all other recreational businesses seeking to attract consumers' leisure time and discretionary spending dollars.

According to Statistical Surveys, Inc., the following is a list of the top ten (largest to smallest) sterndrive boat manufacturers in the United States based on unit sales in 2013. According to Statistical Surveys, Inc., the companies set forth below represent approximately 80 percent of all United States retail sterndrive boat registrations with hull lengths of 18 to 35 feet for the nine months ended September 30, 2013.

- 1.Chaparral
- 2.Sea Ray \*
- 3.Cobalt
- 4.Tahoe
- 5.Bayliner \*
- 6.Regal
- 7.Crownline
- 8.Stingray
- 9.Four Winns
- 10.Monterey

The outboard engine powered market encompasses a wide variety of boats, accounting for approximately 57 percent of traditional powerboat unit sales during 2013. Robalo's share of the outboard sport fishing boat market during the nine months ended September 30, 2013 was approximately three percent. Primary competitors for Robalo during 2013 included Ranger, Carolina Skiff, Sea Hunt, Key West, Sea Fox, Boston Whaler\*, Tidewater and Grady-White.

\* Division or subsidiary of Brunswick Corporation.

## Environmental and Regulatory Matters

Certain materials used in boat manufacturing, including the resins used to make the decks and hulls, are toxic, flammable, corrosive, or reactive and are classified by the federal and state governments as "hazardous materials." Control of these substances is regulated by the Environmental Protection Agency ("EPA") and state pollution control agencies, which require reports and inspect facilities to monitor compliance with their regulations. The Occupational Safety and Health Administration ("OSHA") standards limit the amount of emissions to which an employee may be exposed without the need for respiratory protection or upgraded plant ventilation. Marine Products' manufacturing facilities are regularly inspected by OSHA and by state and local inspection agencies and departments. Marine Products believes that its facilities comply in all material aspects with these regulations. Although capital expenditures related to compliance with environmental laws are expected to increase during the coming years, we do not currently anticipate that any material expenditure will be required to continue to comply with existing environmental or safety

regulations in connection with our existing manufacturing facilities.

Recreational powerboats sold in the United States must be manufactured to meet the standards of certification required by the United States Coast Guard. In addition, boats manufactured for sale in the European Community must be certified to meet the European Community's imported manufactured products standards. These certifications specify standards for the design and construction of powerboats. All boats sold by Marine Products meet these standards. In addition, safety of recreational boats is subject to federal regulation under the Boat Safety Act of 1971. The Boat Safety Act requires boat manufacturers to recall products for replacement of parts or components that have demonstrated defects affecting safety. Marine Products has from time to time instituted recalls for defective component parts produced by other manufacturers. None of the recalls has had a material adverse effect on Marine Products.

The EPA has adopted regulations stipulating that many marine propulsion engines meet an air emission standard that requires fitting a catalytic converter to the engine. These regulations also require, among other things, that the engine manufacturer provide a warranty that the engine meets EPA emission standards. The majority of the engines used in Marine Products' Chaparral product line and all of the engines used in the Company's Robalo product line are subject to these regulations. These regulations are similar to regulations adopted by the California Air Resources Board in 2007, but apply to all U.S. states and territories. This regulation has increased the cost to manufacture the majority of the Company's boat products. The additional cost of complying with these EPA regulations may reduce Marine Products' profitability, because the Company may have to absorb the increased cost. It may also reduce Marine Products' net sales, because the increased cost of owning a boat may force consumers to buy a smaller or less expensive boat or forego a boat purchase, and because increased product cost will reduce the amount of inventory that Marine Products' dealers can carry, thus reducing retail consumers' choices.

#### Employees

As of December 31, 2013, Marine Products had approximately 651 employees (an increase from approximately 590 at December 31, 2012), of whom 6 were management, 42 were administrative and 6 were sales. Although the number of employees has increased in 2013 compared to 2012 in order to support increased production levels, the Company currently maintains a significantly smaller work force compared to years prior to 2008 in an effort to align costs with sales and consumer demand for our products.

None of Marine Products' employees are party to a collective bargaining agreement. Marine Products' entire workforce is currently employed in the United States and Marine Products believes that its relations with its employees are good.

#### Proprietary Matters

Marine Products owns a number of trademarks, trade names and patents that it believes are important to its business. Except for the Chaparral, Robalo and Wahoo! trademarks, however, Marine Products is not dependent upon any single trademark or trade name or group of trademarks or trade names. The Chaparral, Robalo and Wahoo! trademarks are currently registered in the United States. The current duration for such registration ranges from seven to 15 years but each registration may be renewed an unlimited number of times.

Several of Chaparral's and Robalo's designs are protected under the U.S. Copyright Office's Vessel Hull Design Protection Act. This law grants an owner of an original vessel hull design certain exclusive rights. Protection is offered for hull designs that are made available to the public for purchase provided that the application is made within two years of the hull design being made public. As of December 31, 2013, there were 22 Chaparral hull designs and four Robalo hull designs registered under the Vessel Hull Design Protection Act.

During 2008 Chaparral was granted a design patent on its Wide Tech™ hull design by the U.S. Patent and Trademark Office. The patent has a term of 14 years and protects the Wide Tech™ hull currently used on the Sunesta Wide Tech™ and Xtreme, SSi Wide Tech™ and two of its Signature Cruisers from being used by other pleasure boat manufacturers. Marine Products believes that this patent is important to its business.

#### Seasonality

Marine Products' quarterly operating results are affected by weather and general economic conditions. Quarterly operating results for the second quarter have historically recorded the highest sales volume for the year because this corresponds with the highest retail sales volume period. The results for any quarter are not necessarily indicative of

results to be expected in any future period.

#### Inflation

The market prices of certain material and component costs used in manufacturing the Company's products, especially resins that are made with hydrocarbon feedstocks, copper and stainless steel, were very volatile as a result of the financial crisis of 2008, the ensuing global recession and the subsequent economic recovery. The prices of many of these commodities have stabilized, but at historically high levels. As a result, we believe that the Company will continue to incur high materials costs in 2014. We cannot be confident that the Company will be able to institute sufficient price increases to its dealers to compensate for these increased materials costs, or that the Company will be able to implement manufacturing strategies that will significantly reduce usage of raw materials that will compensate for these increased materials costs.

New boat buyers typically finance their purchases. Higher inflation typically results in higher interest rates that could translate into an increased cost of boat ownership. Should higher inflation and increased interest rates occur, prospective buyers may choose to forego or delay their purchases or buy a less expensive boat in the event that interest rates rise or credit is not available to finance their boat purchases.

#### Availability of Filings

Marine Products makes available free of charge on its website, [www.marineproductscorp.com](http://www.marineproductscorp.com), the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports on the same day as they are filed with the Securities and Exchange Commission.

#### Item 1A. Risk Factors

##### Economic Conditions, Availability of Credit and Consumer Confidence Levels Affect Marine Products' Sales Because Marine Products' Products are Purchased with Discretionary Income

During an economic recession or when an economic recession is perceived as a threat, Marine Products will be adversely affected as consumers have less discretionary income or are more apt to save their discretionary income rather than spend it. During times of global political or economic uncertainty, Marine Products will be negatively affected to the extent consumers forego or delay large discretionary purchases pending the resolution of those uncertainties. The 2008 financial crisis and lingering recession may have long-term effects on consumer behavior with regard to pleasure boating as well. Financial market volatility may force consumers to delay retirement, or to choose more modest lifestyles when they do retire. In such a case, consumers may not purchase boats, may purchase boats later in their lives, or may purchase smaller or less expensive boats. Tight lending and credit standards, which until recently have been in use by lenders in the United States, can make loans for boats harder to secure, and such loans may carry unfavorable terms, which may force consumers to forego boat purchases. These factors have also resulted in the past, and may continue to result in the future, in a reduction in the quality and number of dealers upon which Marine Products relies to sell its products.

##### Marine Products Relies upon Third-Party Dealer Floor Plan Lenders Which Provide Financing to its Network of Independent Dealers

Marine Products sells its products to a network of independent dealers, most of whom rely on one or more third-party dealer floor plan lenders to provide financing for their inventory prior to its sale to retail customers. In general, this source of financing is vital to Marine Products' ability to sell products to its dealer network. While dealer floor plan credit is currently available for many of our dealers during the 2014 model year, the Company's sales and profitability could be adversely affected in the event of a decline in floor plan financing availability, or if financing terms change unfavorably.

##### Interest Rates and Fuel Prices Affect Marine Products' Sales

The Company's products are often financed by our dealers and the retail boat consumers. Higher interest rates increase the borrowing costs and, accordingly, the cost of doing business for dealers and the cost of boat purchases for consumers. Fuel costs can represent a large portion of the costs to operate our products. Therefore, higher interest rates and fuel costs can adversely affect consumers' decisions relating to recreational boating purchases.

##### Marine Products' Dependence on its Network of Independent Boat Dealers may Affect its Operating Results and Sales

Virtually all of Marine Products' sales are derived from its network of independent boat dealers. Marine Products has no long-term agreements with these dealers. Competition for dealers among recreational powerboat manufacturers continues to increase based on the quality of available products, the price and value of the products, and attention to customer service. The Company faces intense competition from other recreational powerboat manufacturers in

attracting and retaining independent boat dealers. The number of independent boat dealers supporting the Chaparral and Robalo trade names and the quality of their marketing and servicing efforts are essential to Marine Products' ability to generate sales. A deterioration in the number of Marine Products' network of independent boat dealers could have a material adverse effect on its boat sales. Marine Products' inability to attract new dealers and retain those dealers, or its inability to increase sales with existing dealers, could substantially impair its ability to execute its business plans. Although Marine Products' management believes that the quality of its products and services in the recreational boating market should permit it to maintain its relationship with its dealers and its market position, there can be no assurance that Marine Products will be able to sustain its current sales levels.

#### Marine Products' Financial Condition and Operating Results may be Adversely Affected by Boat Dealer Defaults

The Company's products are sold through dealers and the financial health of these dealers is critical to the Company's continued success. The Company's results can be negatively affected if a dealer defaults because Marine Products or its subsidiaries may be contractually required to repurchase inventory up to certain limits, although for business reasons, the Company may decide to purchase additional boats in excess of this contractual obligation.

#### Marine Products' Ability to Adjust its Business Operations to Compensate for Reduced Sales of Boats may be Restricted in the Future

In 2008 Marine Products idled certain production facilities and reduced its number of employees to offset the impact that reduced net sales had on the Company's operating results and cash flows. As a result, the Company experienced lower rates of absorption of its fixed costs. The Company's sales improved in 2012 and 2013, thus increasing the rate of absorption of its fixed costs and improving operating and net income. Although the Company's unit sales have been increasing, Marine Products still operates at levels which are significantly lower than full manufacturing capacity. These lower operating levels may continue to have an adverse affect in 2014 and in future periods beyond 2014. In addition, the Company's ability to reduce its fixed costs in the future to respond to potential future reduced net sales is limited.

#### Marine Products' Sales are Affected by Weather Conditions

Marine Products' business is subject to weather patterns that may adversely affect its sales. For example, drought conditions, or merely reduced rainfall levels, or excessive rain, may close area boating locations or render boating dangerous or inconvenient, thereby curtailing customer demand for our products. In addition, unseasonably cool weather and prolonged winter conditions may lead to a shorter selling season in some locations. Hurricanes and other storms could cause disruptions of our operations or damage to our boat inventories and manufacturing facilities.

#### Marine Products Encounters Intense Competition Which Affects our Sales and Profits

The recreational boat industry is highly fragmented, resulting in intense competition for customers, dealers and boat show exhibition space. This competition affects both the markets which we currently serve and new markets that we may enter in the future. We compete with several large national or regional manufacturers that have substantial financial, marketing and other resources.

#### Marine Products has Potential Liability for Personal Injury and Property Damage Claims

The products we sell or service may expose Marine Products to potential liabilities for personal injury or property damage claims relating to the use of those products. Historically, the resolution of product liability claims has not materially affected Marine Products' business. Marine Products maintains product liability insurance that it believes to be adequate. However, there can be no assurance that Marine Products will not experience legal claims in excess of its insurance coverage or that claims will be covered by insurance. Furthermore, any significant claims against Marine Products could result in negative publicity, which could cause Marine Products' sales to decline.

#### Because Marine Products Relies on Third-party Suppliers, Marine Products may be Unable to Obtain Adequate Raw Materials, Engines and Components Which Could Adversely Affect Profit Margins and Sales



Marine Products is dependent on third-party suppliers to provide raw materials, engines and components essential to the construction of its various powerboats. Especially critical are the availability and cost of marine engines and commodity raw materials used in the manufacture of Marine Products' boats. While Marine Products' management believes that supplier relationships currently in place are sufficient to provide the engines and materials necessary to meet present production demands, there can be no assurance that these relationships will continue, that these suppliers will remain in operation or that the quantity or quality of materials available from these suppliers will be sufficient to meet Marine Products' future needs. Disruptions in current supplier relationships or the inability of Marine Products to continue to purchase construction materials in sufficient quantities and of sufficient quality at acceptable prices to meet ongoing production schedules could cause a decrease in sales or a sharp increase in the cost of goods sold. Additionally, because of this dependence, the volatility in commodity raw materials or current or future price increases in construction materials or the inability of Marine Products' management to purchase engines and materials required to complete its growth and acquisition strategies could cause a reduction in Marine Products' profit margins or reduce the number of boats Marine Products may be able to produce for sale.

#### Marine Products may be Unable to Identify, Complete or Successfully Integrate Acquisitions

Marine Products intends to pursue acquisitions and form strategic alliances that will enable Marine Products to acquire complementary skills and capabilities, offer new products, expand its customer base, and obtain other competitive advantages. There can be no assurance, however, that Marine Products will be able to successfully identify suitable acquisition candidates or strategic partners, obtain financing on satisfactory terms, complete acquisitions or strategic alliances, integrate acquired operations into its existing operations, or expand into new markets. Once integrated, acquired operations may not achieve anticipated levels of sales or profitability, or otherwise perform as expected. Acquisitions also involve special risks, including risks associated with unanticipated problems, liabilities and contingencies, diversion of management resources, and possible adverse effects on earnings and earnings per share resulting from increased interest costs, the issuance of additional securities, and difficulties related to the integration of the acquired business. The failure to integrate acquisitions successfully may divert management's attention from Marine Products' existing operations and may damage Marine Products' relationships with its key customers and suppliers.

#### Marine Products' Success will Depend on its key Personnel, and the Loss of any key Personnel may Affect its Powerboat Sales

Marine Products' success will depend to a significant extent on the continued service of key management personnel. The loss or interruption of the services of any senior management personnel or the inability to attract and retain other qualified management, sales, marketing and technical employees could disrupt Marine Products' operations and cause a decrease in its sales and profit margins.

#### Marine Products' Ability to Attract and Retain Qualified Employees is Crucial to its Results of Operations and Future Growth

Marine Products relies on the existence of an available hourly workforce to manufacture its products. As with many businesses, we are challenged at times to find qualified employees. There are no assurances that Marine Products will be able to attract and retain qualified employees to meet current and/or future growth needs.

#### If Marine Products is Unable to Comply with Environmental and Other Regulatory Requirements, its Business may be Exposed to Liability and Fines

Marine Products' operations are subject to extensive regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. While Marine Products believes that it maintains all requisite licenses and permits and is in compliance with all applicable federal, state and local regulations, there can be no assurance that Marine Products will be able to continue to maintain all requisite licenses and permits and comply with applicable laws and regulations. The failure to satisfy these and other regulatory requirements could cause Marine Products to incur fines or penalties or could increase the cost of operations. The adoption of additional laws, rules and regulations could also increase Marine Products' costs.

The U.S. Environmental Protection Agency (EPA) has adopted regulations affecting many marine propulsion engines. This regulation has increased the cost of boats subject to the regulation, which may either reduce the Company's profitability or reduce sales.

As with boat construction in general, our manufacturing processes involve the use, handling, storage and contracting for recycling or disposal of hazardous or toxic substances or wastes. Accordingly, we are subject to regulations

regarding these substances, and the misuse or mishandling of such substances could expose Marine Products to liability or fines.

Additionally, certain states have required or are considering requiring a license in order to operate a recreational boat. While such licensing requirements are not expected to be unduly restrictive, regulations may discourage potential first-time buyers, thereby reducing future sales.

#### Marine Products' Stock Price has been Volatile

Historically, the market price of common stock of companies engaged in the discretionary consumer products industry has been highly volatile. Likewise, the market price of our common stock has varied significantly in the past. In addition, the availability of Marine Products common stock to the investing public is limited to the extent that shares are not sold by the executive officers, directors and their affiliates, which could negatively impact the trading price of Marine Products' common stock, increase volatility and affect the ability of minority stockholders to sell their shares. Future sales by executive officers, directors and their affiliates of all or a substantial portion of their shares could also negatively affect the trading price of Marine Products' common stock.

### Marine Products' Management has a Substantial Ownership Interest; Public Stockholders may have no Effective Voice in Marine Products' Management

The Company has elected the "Controlled Corporation" exemption under Section 303A of the New York Stock Exchange ("NYSE") Listed Company Manual. The Company is a "Controlled Corporation" because a group that includes the Company's Chairman of the Board, R. Randall Rollins and his brother, Gary W. Rollins, who is also a director of the Company, and certain companies under their control, controls in excess of fifty percent of the Company's voting power. As a "Controlled Corporation," the Company need not comply with certain NYSE rules including those requiring a majority of independent directors.

Marine Products' executive officers, directors and their affiliates hold directly or through indirect beneficial ownership, in the aggregate, approximately 72 percent of Marine Products' outstanding shares of common stock. As a result, these stockholders effectively control the operations of Marine Products, including the election of directors and approval of significant corporate transactions such as acquisitions. This concentration of ownership could also have the effect of delaying or preventing a third-party from acquiring control of Marine Products at a premium.

### Provisions in Marine Products' Certificate of Incorporation and Bylaws may Inhibit a Takeover of Marine Products

Marine Products' certificate of incorporation, bylaws and other documents contain provisions including advance notice requirements for stockholder proposals and staggered terms of office for the Board of Directors. These provisions may make a tender offer, change in control or takeover attempt that is opposed by Marine Products' Board of Directors more difficult or expensive.

### The Market Prices of Marine Products' Marketable Securities may Become Volatile due to the Downgrading of Insurance Companies Which Insure Some of These Marketable Securities

Marine Products maintains a diversified portfolio of short-duration, investment-grade municipal debt securities. Our investment manager selects securities based on underlying credit quality as disclosed by various rating agencies as well as detailed analysis of specific municipal issuers. Some of these securities are also insured by major insurance companies. Our investment manager selects securities based on underlying credit quality rather than relying on credit insurance, and all of our insured securities carry underlying credit ratings which are investment grade and meet our investment criteria. In spite of high underlying credit ratings and credit quality, the market prices of these securities may become volatile in the event that the ratings of the insurance companies which insure these securities are downgraded.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

Marine Products' corporate offices are located in Atlanta, Georgia. These offices are currently shared with RPC and are leased. The monthly rent paid is allocated between Marine Products and RPC. Under this arrangement, Marine Products pays approximately \$2,000 per month in rent. Marine Products may cancel this arrangement at any time after giving a 30 day notice.

Chaparral owns and maintains approximately 1,012,000 square feet of space utilized for manufacturing, research and development, warehouse, sales office and operations in Nashville, Georgia. In addition, the Company owns 83,000 square feet of manufacturing space at the Robalo facility in Valdosta, Georgia. During 2008, the Robalo facility was temporarily idled and production of these boats was moved to the Nashville facility. There are no plans or current intentions to dispose of the facilities in Valdosta, Georgia. The Company also leases 111,000 square feet of warehouse space in Nashville, Georgia under a long-term arrangement expiring in 2018. Marine Products' total square footage under roof is allocated as follows: manufacturing — 712,000, research and development — 68,500, warehousing — 294,500, office and other — 131,400.

### Item 3. Legal Proceedings

Marine Products is involved in litigation from time to time in the ordinary course of its business. Marine Products does not believe that the ultimate outcome of such litigation will have a material adverse effect on its liquidity, financial condition or results of operations.

### Item 4. Mine Safety Disclosures

Not applicable.

Item 4A. Executive Officers of the Registrant

Each of the executive officers of Marine Products was elected by the Board of Directors to serve until the Board of Directors' meeting immediately following the next annual meeting of stockholders or until his or her earlier removal by the Board of Directors or his or her resignation. The following table lists the executive officers of Marine Products and their ages, offices, and date first elected to office.

Name and Office with Registrant	Age	Date First Elected to Present Office
R. Randall Rollins (1) Chairman of the Board	82	2/28/01
Richard A. Hubbell (2) President and Chief Executive Officer	69	2/28/01
James A. Lane, Jr. (3) Executive Vice President and President of Chaparral Boats, Inc.	71	2/28/01
Linda H. Graham (4) Vice President and Secretary	77	2/28/01
Ben M. Palmer (5) Vice President, Chief Financial Officer and Treasurer	53	2/28/01

(1) R. Randall Rollins began working for Rollins, Inc. (consumer services) in 1949. At the time of the spin-off of RPC from Rollins, Inc. in 1984, Mr. Rollins was elected Chairman of the Board and Chief Executive Officer of RPC. He remains Chairman of RPC and stepped down from the position of Chief Executive Officer effective in 2003. He has served as Chairman of the Board of Marine Products since 2001 and Chairman of the Board of Rollins, Inc. since 1991. He is also a director of Dover Downs Gaming and Entertainment, Inc. and Dover Motorsports, Inc.

(2) Richard A. Hubbell has been the President and Chief Executive Officer of Marine Products since it was spun off in 2001. He has also been President of RPC since 1987 and its Chief Executive Officer since 2003. Mr. Hubbell serves on the Board of Directors of both of these companies.

(3) James A. Lane, Jr. has held the position of President of Chaparral Boats (formerly a subsidiary of RPC) since 1976. Mr. Lane has been Executive Vice President and Director of Marine Products since it was spun off in 2001. He is also a director of RPC and has served in that capacity since 1987.

(4) Linda H. Graham has been Vice President and Secretary of Marine Products since it was spun off in 2001, and Vice President and Secretary of RPC since 1987. Ms. Graham serves on the Board of Directors of both of these companies.

(5) Ben M. Palmer has been Vice President, Chief Financial Officer and Treasurer of Marine Products since it was spun off in 2001 and has served the same roles at RPC since 1996.



## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Marine Products' common stock is listed for trading on the New York Stock Exchange under the symbol "MPX." As of February 14, 2014, there were 38,209,302 shares of common stock outstanding.

At the close of business on February 18, 2014, there were approximately 2,960 beneficial holders of record of the Company's common stock. The high and low prices of Marine Products' common stock and dividends paid for each quarter in the years ended December 31, 2013 and 2012 were as follows:

Quarter	2013			2012		
	High	Low	Dividends	High	Low	Dividends
First	\$7.43	\$5.72	\$0.03	\$6.75	\$4.95	\$0.02
Second	8.15	6.63	0.03	6.30	4.96	0.02
Third	9.47	7.96	0.03	6.18	5.01	0.02
Fourth	10.30	7.92	0.06	6.25	5.10	0.57

In December 2013, in addition to the quarterly dividend of \$0.03 per share, the board of directors approved a special year-end dividend of \$0.03 per share. The Company expects to continue to pay cash dividends to the common stockholders, subject to the earnings and financial condition of the Company and other relevant factors.

## Issuer Purchases of Equity Securities

In accordance with actions by the Company's Board of Directors, an aggregate of 8,250,000 shares have been authorized for repurchase in connection with a stock buyback program initially announced in 2001, and subsequent increases announced in 2005 and 2008. These programs do not have predetermined expiration dates. There were no shares repurchased as part of this program during the fourth quarter of 2013. As of December 31, 2013, a total of 3,216,215 shares remain available for repurchase under this program.

## Performance Graph

The following graph shows a five-year comparison of the cumulative total stockholder return based on the performance of the stock of the Company, assuming dividend reinvestment, as compared with both a broad equity market index and an industry or peer group index. The indices included in the following graph are the Russell 2000 Index ("Russell 2000") and a peer group which includes companies that are considered peers of the Company ("Peer Group"). The companies included in the Peer Group have been weighted according to each respective issuer's stock market capitalization at the end of each year. The companies are Brunswick Corporation and MarineMax, Inc.

The Russell 2000 is used because the Company is a component of the Russell 2000, and because the Russell 2000 is a stock index representing small capitalization U.S. stocks. During 2013 the components of the Russell 2000 had a weighted average market capitalization of \$1.8 billion, and a median market capitalization of \$720 million.

The graph below assumes the value of \$100.00 invested on December 31, 2008.





## Item 6. Selected Financial Data

The following table summarizes certain selected financial data of Marine Products. The historical information may not be indicative of Marine Products' future results of operations. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the notes thereto included elsewhere in this document.

	Years Ended December 31,				
	(In thousands, except share, per share and employee data)				
	2013	2012	2011	2010	2009
Statement of Operations Data:					
Net sales	\$ 168,293	\$ 148,950	\$ 106,437	\$ 101,011	\$ 39,439
Cost of goods sold	138,480	121,746	86,931	83,298	45,996
Gross profit (loss)	29,813	27,204	19,506	17,713	(6,557 )
Selling, general and administrative expenses	20,307	18,443	14,130	13,993	12,606
Operating income (loss)	9,506	8,761	5,376	3,720	(19,163 )
Interest income	524	960	997	1,172	1,663
Other income (1)	-	-	2,025	-	-
Income (loss) before income taxes	10,030	9,721	8,398	4,892	(17,500 )
Income tax provision (benefit)	2,502	2,742	1,667	1,039	(6,807 )
Net income (loss)	\$ 7,528	\$ 6,979	\$ 6,731	\$ 3,853	\$ (10,693 )
Earnings (loss) per share:					
Basic	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.11	\$ (0.30 )
Diluted	\$ 0.20	\$ 0.19	\$ 0.18	\$ 0.11	\$ (0.30 )
Dividends paid per share	\$ 0.15	\$ 0.63	\$ 0.00	\$ 0.00	\$ 0.01
Other Financial and Operating Data:					
Gross profit (loss) margin percent	17.7	% 18.3	% 18.3	% 17.5	% (16.6 )%
Operating margin percent	5.6	% 5.9	% 5.1	% 3.7	% (48.6 )%
Net cash provided by (used for) operating activities	\$ 9,880	\$ 8,182	\$ 3,296	\$ 10,879	\$ (9,036 )
Net cash (used for) provided by investing activities	(269 )	16,811	(11,559 )	3,718	7,416
Net cash used for financing activities	(6,145 )	(24,301 )	(316 )	(199 )	(429 )
Capital expenditures	\$ 521	\$ 354	\$ 357	\$ 191	\$ 85
Employees at end of year	651	587	450	358	307
Factory and administrative space at end of year (square ft.)	1,205	1,205	1,205	1,205	1,205
Balance Sheet Data at end of year:					
Cash and cash equivalents	\$ 5,114	\$ 1,648	\$ 956	\$ 9,535	\$ 2,573
Marketable securities — current	5,639	1,150	12,402	12,826	23,328
Marketable securities — non-current	30,949	35,773	41,699	30,007	16,117
Inventories	28,859	28,159	24,907	21,882	19,487
Working capital	30,698	22,789	32,301	37,773	46,065
Property, plant and equipment, net	11,265	11,470	11,884	12,416	13,310
Total assets	102,553	97,315	110,837	102,809	98,249
Total stockholders' equity	\$ 81,483	\$ 77,747	\$ 93,418	\$ 86,305	\$ 81,512

(1) Other income for 2011 is comprised of a tax-free gain from an employee benefit plan financing arrangement.

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is based upon and should be read in conjunction with "Selected Financial Data" and "Financial Statements and Supplementary Data." See also "Forward-Looking Statements" on page 2.

### Overview

Marine Products, through our wholly owned subsidiaries Chaparral and Robalo, is a leading manufacturer of recreational fiberglass powerboats. Our sales and profits are generated by selling the products that we manufacture to a network of independent dealers who in turn sell the products to retail consumers. These dealers are located throughout the continental United States and in several international markets. Dealers either remit payment upon receipt of the product or finance their inventory through third-party floor plan lenders, who pay Marine Products generally within ten days of delivery of the products to the dealers.

We manage our Company by focusing on the execution of the following business and financial strategies:

- Manufacturing high-quality, stylish, and innovative powerboats for our dealers and retail consumers,
- Providing our independent dealer network appropriate incentives, training, and other support to enhance their success and their customers' satisfaction, thereby facilitating their continued relationship with us,
- Managing our production and dealer order backlog to optimize operating results and reduce risk in the event of a downturn in sales of our products,
- Maintaining a flexible, variable cost structure which can be reduced quickly when deemed appropriate,
- Focusing on the competitive nature of the boating business and designing our products and strategies in order to grow and maintain profitable market share,
- Monitoring the recreational boat market for strong complementary product lines which we may enter through new product development or acquisition,
- Monitoring the activities and financial condition of our dealers and of the third-party floor plan lenders who finance our dealers' inventories,
- Maximizing stockholder return by optimizing the balance of cash invested in the Company's productive assets, the payment of dividends to stockholders, and the repurchase of the Company's common stock on the open market, and
- Aligning the interests of our management and stockholders.

In implementing these strategies and attempting to optimize our financial returns, management closely monitors dealer orders and inventories, the production mix of various models, and indications of near term demand such as consumer confidence, interest rates, dealer orders placed at our annual dealer conferences, and retail attendance and orders at annual winter boat show exhibitions. We also consider trends related to certain key financial and other data, including our historical and forecasted financial results, market share, unit sales of our products, average selling price per boat, and gross profit margins, among others, as indicators of the success of our strategies. Marine Products' financial results are affected by consumer confidence — because pleasure boating is a discretionary expenditure, interest rates — because many retail customers finance the purchase of their boats, and other socioeconomic and environmental factors such as availability of leisure time, consumer preferences, demographics and the weather.

During 2013, several segments of the recreational boating industry improved due to stable consumer confidence and improving residential real estate markets, as well as a strong financing environment for dealers and consumers. Overall retail sales of outboard recreational boats improved during 2013, although sterndrive unit sales declined. Our net sales improved in 2013 compared to 2012 due to higher unit sales of our Robalo sport fishing boats and a model mix among our Chaparral boats that yielded an increase in average selling prices. We achieved higher net

sales, as well as increased gross and operating profit in 2013 compared to 2012. Also during 2013, we initiated the development of a jet boat product line. We plan to have this product available to our dealer network during the 2014 retail selling season. Management will continue to monitor retail demand among the various segments in the recreational boat market, dealer inventory levels and the availability of dealer and consumer financing for the purchase of our products and adjust our production levels as deemed appropriate.

We continuously monitor our market share in the 18 to 35 foot sterndrive category as one indicator of the success of our strategies and the market's acceptance of our products. For the nine months ended September 30, 2013 (latest data available to us), Chaparral's market share in the 18 to 35 foot sterndrive category was 13.9 percent compared to 11.7 percent during the same period in 2012; the highest market share in this category. Our market share increased across a broad size range, but was higher among the smaller boats in our market due to the relative strength of our entry level Chaparral models which were introduced in the fourth quarter of 2011. Chaparral's market share in the 18 to 20 foot category has increased to 10.7 percent during 2013, compared to 8.4 percent in 2012, due to the success of these smaller models. Chaparral's market share in the 21 to 35 foot category increased as well, from 14.6 percent during the nine months ended September 30, 2012 to 16.2 percent during the same period in 2013. We will continue to monitor our market share and believe it to be important, but we also believe that maximizing profitability takes precedence over growing our market share.

## Outlook

We believe that recreational boating retail demand in many segments of the industry is improving. Attendance and sales during the 2014 winter boat shows have been moderately higher than the 2013 season, residential real estate markets and consumer confidence have stabilized, and fuel prices have declined slightly. We also believe that there is improved demand from consumers who have delayed purchasing a boat over the past few years due to economic uncertainty.

Although industry wide retail boat sales remain lower than they were prior to the 2008 financial crisis, sales volumes expanded in many segments of the recreational boating industry in 2013, and we expect this to continue for 2014. We believe improvements in retail boat sales will be modest due to lackluster economic improvement, which tends to discourage consumers from purchasing large discretionary goods such as pleasure boats. Fluctuations in fuel prices can impact our sales, although fuel prices declined during the fourth quarter of 2013, which should encourage consumers to participate in recreational boating. Furthermore, recent improvements within selected housing markets could have positive effects on sales. For a number of years, Marine Products as well as other boat manufacturers have been improving their customer service capabilities, marketing strategies and sales promotions in order to attract more consumers to recreational boating as well as improve consumers' boating experiences. The Company provides financial incentives to its dealers for favorable customer satisfaction surveys. In addition, the recreational boating industry conducts a promotional program which involves advertising and consumer targeting efforts, as well as other activities designed to increase the potential consumer market for pleasure boats. Many manufacturers, including Marine Products, participate in this program. Management believes that these efforts have incrementally benefited the industry and Marine Products. As in past years, Marine Products is enhancing its selection of models for the 2014 model year which began on July 1, 2013. We are continuing to emphasize the value-priced Chaparral and Robalo models, as well as larger models in the Chaparral line-up including the SSX models, and new Robalo bay boat models. In addition, we have introduced a recreational jet boat product line and expect to begin shipping this product to dealers during the 2014 retail selling season. We have executed a jet engine supply agreement with Bombardier Recreational Products. We believe that these jet boat models will expand our customer base, and leverage our strong dealer network and reputation for quality and styling.

Our financial results for the full year of 2014 will depend on a number of factors, including interest rates, consumer confidence, the availability of credit to our dealers and consumers, fuel costs, the continued acceptance of our new products in the recreational boating market, our ability to compete in the competitive pleasure boating industry, and the costs of labor and certain of our raw materials and key components.

## Results of Operations

(\$'s in thousands)	Years ended December 31,		
	2013	2012	2011
Total number of boats sold to dealers	3,569	3,404	2,100
Average gross selling price per boat	\$43.7	\$41.1	\$48.4
Net sales	\$168,293	\$148,950	\$106,437
Percentage of gross profit margin to net sales	17.7	% 18.3	% 18.3
Percentage of selling, general and administrative expense to net sales	12.1	% 12.4	% 13.3
Operating income	\$9,506	\$8,761	\$5,376
Warranty expense	\$2,446	\$2,245	\$1,032

## Year Ended December 31, 2013 Compared To Year Ended December 31, 2012

**Net Sales.** Marine Products' net sales increased by \$19.3 million or 13.0 percent in 2013 compared to 2012. The increase was primarily due to a 4.8 percent increase in the number of boats sold, coupled with a 6.4 percent increase in the average gross selling price per boat. Unit sales increased due to higher sales of our Robalo outboard sport fishing boats and larger Chaparral H2O models, partially offset by lower unit sells of our smaller H2O models. Average selling prices increased due to higher sales of our larger models including the new Chaparral 257 and 277 SSX Sportdecks and a significant increase in sales of our larger Robalo models. During 2013, sales outside of the United States accounted for 17.2 percent of net sales, a slight decrease compared to 20.3 percent of net sales in the prior year. Domestic sales increased 17.4 percent and international sales decreased 4.3 percent during the period compared to the prior year.

**Cost of Goods Sold.** Cost of goods sold increased 13.7 percent in 2013 compared to 2012. As a percentage of net sales, cost of goods sold increased to 82.3 percent for 2013, compared to 81.7 percent in 2012, primarily due to increased employment costs to enhance our production workforce.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 10.1 percent in 2013 compared to 2012 primarily as a result of costs that vary with sales, such as warranty expense and sales commissions. Selling, general and administrative expenses as a percentage of sales decreased from 12.4 percent in 2012 to 12.1 percent in 2013, primarily due to leverage of fixed costs over higher net sales.

**Interest Income.** Interest income was \$524 thousand in 2013 compared to \$960 thousand in 2012. Marine Products generates interest income primarily from investments in tax-exempt municipal obligations. The decrease was primarily due to a 30.7 percent decrease in the average balance of our marketable securities portfolio. The decrease in the average balance was primarily due to the liquidation of \$19.3 million of the marketable securities portfolio to fund a special dividend of \$0.55 per share paid in December 2012 totaling approximately \$20.8 million.

**Income Tax Provision.** The income tax provision was \$2.5 million in 2013 and 2012. The effective tax rate in 2013 was 24.9 percent compared to 28.2 percent in 2012. The lower 2013 effective tax rate is a result of a one-time beneficial adjustment of the 2012 R&D credit totaling approximately \$244,000 which was retroactively enacted into law in 2013, partially offset by increased pre-tax income.

## Year Ended December 31, 2012 Compared To Year Ended December 31, 2011

**Net Sales.** Marine Products' net sales increased by \$42.5 million or 39.9 percent in 2012 compared to 2011. The increase was primarily due to a 62.1 percent increase in the number of boats sold, partially offset by a 15.1 percent decrease in the average gross selling price per boat. Unit sales increased dramatically due to sales of our then recently introduced Chaparral H2O Sport and Fish & Ski Boats, as well as our Robalo 180 and 200 outboard sport fishing boats. The increased sales of these smaller models also resulted in the decrease in overall average selling prices during 2012 compared to 2011. During 2012, sales outside of the United States accounted for 20.3 percent of net sales, a slight decrease compared to 21.4 percent of net sales in the prior year. Domestic sales increased 42.0 percent and international sales increased 32.6 percent during the period compared to the prior year. The majority of the increase in international sales was due to higher sales volumes in Canada due to an expanded dealer network coupled with improvement in the Canadian economy while most other international economies continued to struggle.

**Cost of Goods Sold.** Cost of goods sold increased 40.0 percent in 2012 compared to 2011. As a percentage of net sales, cost of goods sold was 81.7 percent for 2012, unchanged compared to 2011 despite increased sales of smaller models, which carry lower margins. The impact of decreased margins was offset by increased production efficiencies due to higher production levels.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 30.5 percent in 2012 compared to 2011 primarily as a result of costs that vary with the level of Company sales, such as warranty expense, marketing, research and development expenses and sales commissions. Selling, general and administrative expenses as a percentage of sales decreased from 13.3 percent in 2011 to 12.4 percent in 2012, primarily due to leverage of fixed costs over higher net sales. Warranty expense was 1.5 percent of net sales in 2012 compared to 1.0 percent of net sales in 2011. Warranty expense as a percentage of net sales was lower in 2011, due primarily to favorable claims experience and the resulting change in management's estimate of warranties issued in prior years.



**Interest Income.** Interest income was \$960 thousand in 2012 compared to \$1.0 million in 2011. Marine Products generates interest income primarily from investments in tax-exempt municipal obligations. The slight decrease in interest income is primarily due to lower market returns on the Company's debt investments compared to the prior year offset by an increase in the average investment balance compared to the prior year. Interest income includes \$290 thousand in gains realized on sales of marketable securities sold to fund a portion of our special 2012 year-end dividend.

**Other Income.** Other income of \$2.0 million recorded in the fourth quarter of 2011 represents a tax-free gain from an employee benefit plan financing arrangement. There was no other income reported in 2012.

**Income Tax Provision.** The income tax provision was \$2.7 million in 2012 compared to \$1.7 million in 2011. The effective tax rate in 2012 was 28.2 percent compared to 19.9 percent in 2011. The change in the effective rate was due primarily to a \$2.0 million tax free gain recorded in 2011, coupled with a disproportionate increase in our annual pretax income in relation to permanent differences between book and taxable income including tax-exempt income earned on municipal debt securities, and insurance contracts, and the US manufacturers deduction.

## Liquidity and Capital Resources

### Cash and Cash Flows

The Company's cash and cash equivalents were \$5.1 million at December 31, 2013, \$1.6 million at December 31, 2012 and \$1.0 million at December 31, 2011. In addition, the aggregate of short-term and long-term marketable securities was \$36.6 million at December 31, 2013, \$36.9 million at December 31, 2012 and \$54.1 million at December 31, 2011.

The following table sets forth the historical cash flows for the twelve months ended December 31:

(in thousands)	2013	2012	2011
Net cash provided by operating activities	\$9,880	\$8,182	\$3,296
Net cash (used for) provided by investing activities	(269 )	16,811	(11,559 )
Net cash used for financing activities	(6,145 )	(24,301 )	(316 )

### 2013

Cash provided by operating activities increased by \$1.7 million in 2013 compared to 2012. This increase was primarily due to an increase in net income, coupled with a net favorable change in working capital.

The major components of the net favorable change in working capital were as follows: a favorable change of \$2.6 million in inventories due to a smaller increase in inventory in the current year; \$1.7 million unfavorable change in other accrued expenses largely attributable to timing of payments related to retail incentives coupled with a decrease in deferred revenue.

Cash used for investing activities was \$269 thousand in 2013 compared to \$16.8 million provided by investing activities in 2012. This change was due to significant sales of marketable securities in 2012 primarily used to fund a portion of the \$0.55 per share special dividend paid in the fourth quarter of 2012.

Cash used for financing activities decreased \$18.2 million in 2013 primarily due to the special dividend of \$0.55 per share paid in the fourth quarter of 2012, partially offset by a 50.0 percent increase in the quarterly cash dividend in 2013 compared to the prior year coupled with a special dividend of \$0.03 per share paid in the fourth quarter of 2013.

2012

Cash provided by operating activities increased by \$4.9 million in 2012 compared to 2011. This increase was primarily due to a significant increase in net income during 2012 compared to 2011, excluding the gain on a benefit plan financing arrangement in 2011, partially offset by higher working capital requirements during 2012 consistent with increased production volumes and the timing of adding critical manufacturing components into inventory.

Cash provided by investing activities was \$16.8 million in 2012 compared to \$11.6 million used for investing activities in 2011. This change was due to increased sales of marketable securities primarily used to fund a portion of the \$0.55 per share special dividend paid in the fourth quarter of 2012.

Cash used for financing activities increased \$24.0 million in 2012 primarily due to the reinstatement of a \$0.02 per share regular quarterly dividend beginning in the first quarter of 2012 coupled with a special dividend of \$0.55 per share paid in the fourth quarter of 2012. There were no dividend payments in 2011.

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## Cash Requirements

Management expects that capital expenditures during 2014 will be approximately \$1.7 million.

The Company participates in a multiple employer Retirement Income Plan, sponsored by RPC, Inc. (“RPC”). During 2013, the Company made cash contributions of \$150 thousand to this plan in order to achieve the Company’s funding objective. We expect that additional contributions by the Company to the Retirement Income Plan of approximately \$135 thousand will be made in 2014.

On January 28, 2014, the Board of Directors approved a quarterly dividend of \$0.03 per common share payable March 10, 2014 to stockholders of record at the close of business on February 10, 2014.

The Company has agreements with two employees, which provide for a monthly payment to the employees equal to 10 percent of profits (defined as pretax income before goodwill amortization and certain allocated corporate expenses).

In January 2008, the Board of Directors authorized an additional 3,000,000 shares that the Company may repurchase for a total aggregate authorization of 8,250,000 shares. There were 6,000 shares repurchased in the open market during 2013. As of December 31, 2013, the Company has repurchased a total of 5,033,785 shares in the open market under this program and there are 3,216,215 shares that remain available for repurchase.

The Company has entered into agreements with third-party floor plan lenders where it has agreed, in the event of default by the dealer, to repurchase MPC boats repossessed from the dealer. These arrangements are subject to maximum repurchase amounts and the associated risk is mitigated by the value of the boats repurchased. There were no material repurchases of dealer inventory during 2013. At December 31, 2013 there were no amounts payable to lenders related to repurchased inventory or repurchased boats remaining in inventory. If dealers experience financial difficulty as a result of the current market conditions, the Company may incur repurchase obligations under current programs or programs initiated in the future. See further information regarding repurchase obligations in “NOTE 9: COMMITMENTS AND CONTINGENCIES” of the Consolidated Financial Statements.

The Company believes that the liquidity provided by its existing cash and cash equivalents, marketable securities, and cash expected to be generated from operations will provide sufficient capital to meet its requirements for at least the next twelve months. The Company’s decisions about the amount of cash to be used for investing and financing purposes are influenced by its capital position and the expected amount of cash to be provided by operations.

## Contractual Obligations

The following table summarizes the Company’s contractual obligations as of December 31, 2013:

Contractual Obligations (in thousands)	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ —	\$ —	\$ —	\$ —	\$ —
Capital lease obligation	—	—	—	—	—
Operating leases (1)	757,192	160,836	318,156	278,200	—
Purchase obligations (2)	—	—	—	—	—

Due to floor plan lenders (3)	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Total	\$ 757,192	\$ 160,836	\$ 318,156	\$ 278,200	\$ —

- (1) Operating leases represent agreements for warehouse space and various office equipment.
- (2) As part of the normal course of business the Company enters into purchase commitments to manage its various operating needs. However, the Company does not have any obligations that are non-cancelable or subject to a penalty if canceled.
- (3) The Company has agreements with various third-party lenders where it guarantees varying amounts of debt for qualifying dealers on boats in inventory. As of December 31, 2013, there are no payables outstanding to floor plan lenders.

#### Fair Value Measurements

The Company's assets and liabilities measured at fair value are classified in the fair value hierarchy (Level 1, 2 or 3) based on the inputs used for valuation. Assets and liabilities that are traded on an exchange with a quoted price are classified as Level 1. Assets and liabilities that are valued using significant observable inputs in addition to quoted market prices are classified as Level 2. The Company currently has no assets or liabilities measured on a recurring basis that are valued using unobservable inputs and therefore no assets or liabilities measured on a recurring basis are classified as Level 3. For defined benefit plan assets classified as Level 3, the values are computed using inputs such as cost, discounted future cash flows, independent appraisals and market based comparable data or on net asset values calculated by the fund and not publicly available.

### Off Balance Sheet Arrangements

To assist dealers in obtaining financing for the purchase of its boats for inventory, the Company has entered into agreements with various third-party floor plan lenders whereby the Company guarantees varying amounts of debt for qualifying dealers on boats in inventory. The Company's obligation under these guarantees becomes effective in the case of a default under the financing arrangement between the dealer and the third-party lender. The agreements typically provide for the return of all repossessed boats in "new and unused" condition subject to normal wear and tear, as defined, to the Company, in exchange for the Company's assumption of specified percentages of the debt obligation on those boats, up to certain contractually determined dollar limits which vary by lender. There were no material repurchases of dealer inventory during 2013 or 2012.

Management continues to monitor the risk of additional defaults and resulting repurchase obligation based primarily upon information provided by the third-party floor plan lenders and to adjust the guarantee liability at the end of each reporting period based on information reasonably available at that time. As of December 31, 2013, the Company believes the fair value of its remaining guarantee liability is immaterial. See further information regarding repurchase obligations in "NOTE 9: COMMITMENTS AND CONTINGENCIES" of the Consolidated Financial Statements.

The Company currently has an agreement with one of the floor plan lenders whereby the contractual repurchase limit is limited to a maximum of 16 percent of the average net receivables financed by the floor plan lender for dealers during the prior 12 month period, which was \$7.1 million as of December 31, 2013. The Company has contractual repurchase agreements with additional lenders with an aggregate maximum repurchase obligation of approximately \$6.2 million, with various expiration and cancellation terms of less than one year, for an aggregate repurchase obligation with all financing institutions of approximately \$13.3 million as of December 31, 2013. Although the Company has these agreements with financial institutions, in certain situations, the Company may decide for business reasons to repurchase boats in excess of these contractual amounts.

### Related Party Transactions

In conjunction with its spin-off from RPC in 2001, the Company and RPC entered into various agreements that define the companies' relationship after the spin-off.

The Transition Support Services Agreement provides for RPC to provide certain services, including financial reporting and income tax administration, acquisition assistance, etc., to Marine Products until the agreement is terminated by either party. Marine Products reimbursed RPC for its estimated allocable share of administrative costs incurred for services rendered on behalf of Marine Products totaling \$670,000 in 2013, \$544,000 in 2012, and \$639,000 in 2011. The Company's liability to RPC for these services was approximately \$145,000 as of December 31, 2013, and approximately \$94,000 as of December 31, 2012. The Company's directors are also directors of RPC and all of the Company's executive officers with the exception of one are employees of both the Company and RPC.

The Employee Benefits Agreement provides for, among other things, the Company's employees to continue participating subsequent to the spin-off in two RPC sponsored benefit plans, specifically, the defined contribution 401(k) plan and the defined benefit retirement income plan.

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.



### Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require significant judgment by management in selecting the appropriate assumptions for calculating accounting estimates. These judgments are based on our historical experience, terms of existing contracts, trends in the industry, and information available from other outside sources, as appropriate. Senior management has discussed the development, selection and disclosure of its critical accounting estimates with the Audit Committee of our Board of Directors. The Company believes that, of its significant accounting policies, the following may involve a higher degree of judgment and complexity.

**Sales recognition** - The Company sells its boats through its network of independent dealers. Sales orders used to plan production are firm indications of interest from dealers and are cancelable at any time, although historically very few orders are cancelled after they have been placed. The Company recognizes sales when all the following conditions are met: (1) a fully executed sales agreement exists, (2) the price of the boat is established, (3) the dealer takes delivery of the boat, and (4) collectability of the sales price is reasonably assured.

**Sales incentives and discounts** – The Company records incentives as a reduction of sales or as a cost of sales as appropriate. Using historical trends and management estimates, adjusted for current changes, the Company estimates the amount of incentives that will be paid in the future on boats sold and accrues an estimated liability. The Company offers various incentives that promote sales to dealers, and to a lesser extent, retail customers. These incentives are designed to encourage timely replenishment of dealer inventories after peak selling seasons, stabilize manufacturing volumes throughout the year, and improve production model mix. The dealer incentive programs are a combination of annual volume commitment discounts, and additional discounts at time of invoice for those dealers who do not finance their inventory through specified floor plan financing agreements. The annual dealer volume discounts are primarily based on July 1 through June 30 model year purchases. In addition, the Company offers at various times other time-specific or model-specific incentives.

The factors that complicate the calculation of the cost of these incentives are the ability to forecast sales of the Company and individual dealers, the volume and timing of inventory financed by specific dealers, identification of which boats have been sold subject to an incentive, and the estimated lag time between sales and payment of incentives. Settlement of the incentives generally occurs from three to twelve months after the sale. The Company regularly analyzes the historical incentive trends and makes adjustments to recorded liabilities for changes in trends and terms of incentive programs. Total incentives recorded in net sales as a percentage of gross sales were 9.5 percent in 2013, 10.4 percent in 2012, and 12.5 percent in 2011. A 0.25 percentage point change in incentives as a percentage of gross sales during 2013 would have increased or decreased net sales, gross margin and operating income by approximately \$0.4 million.

**Warranty costs** -The Company records as part of selling, general and administrative expenses an experience based estimate of the future warranty costs to be incurred when sales are recognized. The Company evaluates its warranty obligation on a model year basis. The Company provides warranties against manufacturing defects for various components of the boats, primarily the fiberglass deck and hull, with warranty periods extending up to 10 years. Warranty costs, if any, on other components of the boats are generally absorbed by the original component manufacturer. Warranty costs can vary depending upon the size and number of components in the boats sold, the pre-sale warranty claims, and the desired level of customer service. While we focus on high quality manufacturing programs and processes, including actively monitoring the quality of our component suppliers and managing the dealer and customer service warranty experience and reimbursements, our estimated warranty obligation is based upon the warranty terms and the Company's enforcement of those terms over time, defects, repair costs, and the

volume and mix of boat sales. The estimate of warranty costs is regularly analyzed and is adjusted based on several factors including the actual claims that occur. Warranty expense as a percentage of net sales was 1.5 percent in 2013, 1.5 percent in 2012, and 1.0 percent in 2011. A 0.10 percentage point increase in the estimated warranty expense as a percentage of net sales during 2013 would have increased selling, general and administrative expenses and reduced operating income by approximately \$0.2 million.

Income taxes - The effective income tax rate was 24.9 percent in 2013, 28.2 percent in 2012, and 19.9 percent in 2011. The effective tax rates vary due to changes in estimates of future taxable income, fluctuations in the tax jurisdictions in which the earnings and deductions are realized, variations in the relationship of tax-exempt income or losses to income before taxes and favorable or unfavorable adjustments to estimated tax liabilities related to proposed or probable assessments. As a result, the effective tax rate may fluctuate significantly on a quarterly or annual basis.

The Company establishes a valuation allowance against the carrying value of deferred tax assets when it is determined that it is more likely than not that the asset will not be realized through future taxable income. Such amounts are charged to earnings in the period the determination is made. Likewise, if it is later determined that it is more likely than not that the net deferred tax assets would be realized, the applicable portion of the previously provided valuation allowance is reversed. The Company considers future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which the Company operates, and prudent and feasible tax planning strategies in determining the need for a valuation allowance.



The Company calculates the current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are recorded when identified, which is generally in the third quarter of the subsequent year for U.S. federal and state provisions. Deferred tax liabilities and assets are determined based on the differences between the financial and tax bases of assets and liabilities using enacted tax rates in effect in the year the differences are expected to reverse.

The amount of income taxes the Company pays is subject to ongoing audits by federal and state tax authorities, which often result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. Additionally, the jurisdictions in which earnings or deductions are realized may differ from current estimates.

### Impact of Recent Accounting Pronouncements

During the year ended December 31, 2013, the Financial Accounting Standards Board (FASB) issued the following Accounting Standards Updates (ASU):

#### Recently Adopted Accounting Pronouncements:

Accounting Standards Update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. In addition, an entity is required to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The Company adopted these provisions in the first quarter of 2013 and has included the required additional disclosures in the accompanying financial statements and notes.

#### Recently Issued Accounting Pronouncements Not Yet Adopted:

Accounting Standards Update 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this ASU requires an unrecognized tax benefit, or a portion thereof, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The only exception would be if the deferred taxes related to these items are not available to settle any additional income taxes that would result from the disallowance of a tax position either by statute or at the entity's choosing. In such cases, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective prospectively for fiscal years beginning after December 15, 2013 and for interim reporting periods within those years, with early adoption being permitted. The Company plans to adopt these provisions in the first quarter of 2014 and does not expect the adoption to have a material impact on the Company's consolidated financial statements.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Marine Products holds no derivative financial instruments which could expose the Company to significant market risk. Marine Products maintains an investment portfolio, comprised primarily of municipal debt and corporate debt securities, which are subject to interest rate risk exposure. This risk is managed through conservative policies to invest in high-quality obligations. Marine Products has performed an interest rate sensitivity analysis using a duration model over the near term with a 10 percent change in interest rates. Marine Products' portfolio is not subject to material interest rate risk exposure based on this analysis. Marine Products does not expect any material changes in market risk exposures or how those risks are managed.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Stockholders of Marine Products Corporation:

The management of Marine Products Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Marine Products Corporation maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded against loss or unauthorized use and that the financial records are adequate and can be relied upon to produce financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control system is augmented by written policies and procedures, an internal audit program and the selection and training of qualified personnel. This system includes policies that require adherence to ethical business standards and compliance with all applicable laws and regulations.

There are inherent limitations to the effectiveness of any controls system. A controls system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the controls system are met. Also, no evaluation of controls can provide absolute assurance that all control issues and any instances of fraud, if any, within the Company will be detected. Further, the design of a controls system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The Company intends to continually improve and refine its internal controls.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our internal control over financial reporting, as of December 31, 2013 based on criteria established in the 1992 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management's assessment is that Marine Products Corporation's internal control over financial reporting was not effective as a result of a material weakness related to controls associated with accumulating and recording accounts payable for goods or services received as of December 31, 2013.

A "material weakness" is a deficiency or a combination of control deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be detected on a timely basis. During the 2013 financial statement audit, it was discovered that liabilities for receipts of goods and services had been erroneously omitted from our normal transaction accumulation procedures which accordingly resulted in a preliminary understatement of accounts payable as of December 31, 2013. The Company has determined that the internal controls related to accumulating accounts payable accruals were not operating effectively resulting in a material weakness in the Company's internal controls. The Company intends to remediate this material weakness by improving the operating effectiveness of controls in place and implementing additional internal controls where necessary to achieve appropriate accuracy and completeness of accounts payable accruals. The Company expects to complete this as part of the Company's reporting of first quarter 2014 operating results.

The Company's independent registered public accounting firm, Grant Thornton LLP, has audited the consolidated financial statements as of and for the year ended December 31, 2013, and has also issued their report on the effectiveness of the Company's internal control over financial reporting, included in this report on page 29.

/s/ Richard A. Hubbell  
Richard A. Hubbell  
President and Chief Executive Officer

/s/ Ben M. Palmer  
Ben M. Palmer  
Chief Financial Officer and Treasurer

Atlanta, Georgia  
March 6, 2014

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Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Board of Directors and Stockholders  
Marine Products Corporation

We have audited the internal control over financial reporting of Marine Products Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in the 1992 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment. A material weakness in the controls related to the completeness and accuracy of accounts payable has been identified and included in Management’s Report on Internal Control over Financial Reporting referenced in Item 9A of the Company’s December 31, 2013 annual report on Form 10-K.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2013. The material weakness identified above was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements, and this report does not affect our report dated March 6, 2014, which expressed an unqualified opinion on those financial statements.

We do not express an opinion or any other form of assurance on management's remediation plans for the identified material weakness.

/s/ Grant Thornton LLP

Atlanta, Georgia  
March 6, 2014

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Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Board of Directors and Stockholders  
Marine Products Corporation

We have audited the accompanying consolidated balance sheets of Marine Products Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marine Products Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2014 expressed a qualified opinion thereon.

/s/ Grant Thornton LLP

Atlanta, Georgia  
March 6, 2014

## Item 8. Financial Statements and Supplementary Data

## CONSOLIDATED BALANCE SHEETS

## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

(in thousands except share information)

December 31,	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$5,114	\$1,648
Marketable securities	5,639	1,150
Accounts receivable, net	2,021	1,794
Inventories	28,859	28,159
Income taxes receivable	692	394
Deferred income taxes	1,096	1,283
Prepaid expenses and other current assets	1,839	1,607
Current assets	45,260	36,035
Property, plant and equipment, net	11,265	11,470
Goodwill	3,308	3,308
Other intangibles, net	465	465
Marketable securities	30,949	35,773
Deferred income taxes	3,177	3,531
Other assets	8,129	6,733
Total assets	\$102,553	\$97,315
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable	\$5,569	\$4,246
Accrued expenses and other liabilities	8,993	9,000
Current liabilities	14,562	13,246
Pension liabilities	6,420	6,232
Other long-term liabilities	88	90
Total liabilities	21,070	19,568
Commitments and contingencies (Note 9)	—	—
<b>Stockholders' Equity</b>		
Preferred stock, \$0.10 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.10 par value, 74,000,000 shares authorized, issued and outstanding – 38,095,322 shares in 2013, 37,820,521 shares in 2012	3,810	3,782
Capital in excess of par value	3,583	2,417
Retained earnings	74,943	73,120
Accumulated other comprehensive loss	(853)	(1,572)
Total stockholders' equity	81,483	77,747
Total liabilities and stockholders' equity	\$102,553	\$97,315

The accompanying notes are an integral part of these statements.



CONSOLIDATED STATEMENTS OF OPERATIONS  
MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

(in thousands except per share data)

Years ended December 31,	2013	2012	2011
Net sales	\$ 168,293	\$ 148,950	\$ 106,437
Cost of goods sold	138,480	121,746	86,931
Gross profit	29,813	27,204	19,506
Selling, general and administrative expenses	20,307	18,443	14,130
Operating income	9,506	8,761	5,376
Interest income	524	960	997
Other income	-	-	2,025
Income before income taxes	10,030	9,721	8,398
Income tax provision	2,502	2,742	1,667
Net income	\$ 7,528	\$ 6,979	\$ 6,731
<b>EARNINGS PER SHARE</b>			
Basic	\$ 0.20	\$ 0.19	\$ 0.19
Diluted	0.20	0.19	0.18
Dividends paid per share	\$ 0.15	\$ 0.63	\$ —

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

(in thousands)

Years ended December 31,	2013	2012	2011
Net income	\$7,528	\$6,979	\$6,731
Other comprehensive income, net of taxes			
Pension adjustment	781	(105 )	(504 )
Unrealized (loss) gain on securities, net of reclassification adjustment	(62 )	(9 )	42
Comprehensive income	\$8,247	\$6,865	\$6,269

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
(in thousands)

Three Years Ended	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive	
					Income (Loss)	Total
December 31, 2013	Shares	Amount				
Balance, December 31, 2010	37,075	\$ 3,708	\$371	\$83,222	\$ (996 )	\$86,305
Stock issued for stock incentive plans, net	378	38	1,302	—	—	1,340
Stock purchased and retired	(78 )	( 8 )	(565 )	—	—	(573 )
Net income	—	—	—	6,731	—	6,731
Pension adjustment, net of taxes	—	—	—	—	(504 )	(504 )
Unrealized gain on securities, net of taxes and reclassification adjustments	—	—	—	—	42	42
Excess tax benefits for share based payments	—	—	77	—	—	77
Balance, December 31, 2011	37,375	3,738	1,185	89,953	(1,458 )	93,418
Stock issued for stock incentive plans, net	767	76	2,604	—	—	2,680
Stock purchased and retired	(321 )	(32 )	(1,751)	—	—	(1,783 )
Net income	—	—	—	6,979	—	6,979
Pension adjustment, net of taxes	—	—	—	—	(105 )	(105 )
Unrealized loss on securities, net of taxes and reclassification adjustments	—	—	—	—	(9 )	(9 )
Excess tax benefits for share based payments	—	—	379	—	—	379
Dividends declared	—	—	—	(23,812)	—	(23,812)
Balance, December 31, 2012	37,821	3,782	2,417	73,120	(1,572 )	77,747
Stock issued for stock incentive plans, net	364	37	1,597	—	—	1,634
Stock purchased and retired	(90 )	(9 )	(567 )	—	—	(576 )
Net income	—	—	—	7,528	—	7,528
Pension adjustment, net of taxes	—	—	—	—	781	781
Unrealized loss on securities, net of taxes and reclassification adjustments	—	—	—	—	(62 )	(62 )
Excess tax benefits for share-based payments	—	—	136	—	—	136
Dividends declared	—	—	—	(5,705 )	—	(5,705 )
Balance, December 31, 2013	38,095	\$ 3,810	\$ 3,583	\$ 74,943	\$ (853)	\$81,483

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
(in thousands)

Years ended December 31,	2013	2012	2011
<b>OPERATING ACTIVITIES</b>			
Net income	\$7,528	\$6,979	\$6,731
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	726	768	889
Gain on sale of equipment and property	(15 )	—	—
Gain on benefit plan financing arrangement	—	—	(2,025 )
Stock-based compensation expense	1,702	1,495	1,296
Excess tax benefits for share-based payments	(136 )	(379 )	(77 )
Deferred income tax provision (benefit)	78	(498 )	(76 )
(Increase) decrease in assets:			
Accounts receivable	(227 )	415	(1,031 )
Inventories	(700 )	(3,252 )	(3,025 )
Prepaid expenses and other current assets	(232 )	(147 )	(10 )
Income taxes receivable	(298 )	(394 )	558
Other non-current assets	(184 )	456	(67 )
Increase (decrease) in liabilities:			
Accounts payable	1,323	1,254	1,108
Income taxes payable	134	(14 )	327
Other accrued expenses	(5 )	1,731	(1,281 )
Other long-term liabilities	186	(232 )	(21 )
Net cash provided by operating activities	9,880	8,182	3,296
<b>INVESTING ACTIVITIES</b>			
Capital expenditures	(521 )	(354 )	(357 )
Proceeds from sale of assets	15	—	—
Proceeds from benefit plan financing arrangement	—	—	3,671
Re-investment in benefit plan financing arrangement	—	—	(3,671 )
Sales and maturities of marketable securities	14,576	51,247	24,904
Purchases of marketable securities	(14,339 )	(34,082 )	(36,106 )
Net cash (used for) provided by investing activities	(269 )	16,811	(11,559 )
<b>FINANCING ACTIVITIES</b>			
Payment of dividends	(5,705 )	(23,812 )	—
Cash paid for common stock purchased and retired	(576 )	(960 )	(447 )
Repayment of capital lease obligation	—	(375 )	—
Excess tax benefits for share-based payments	136	379	77
Proceeds received upon exercise of stock options	—	467	54
Net cash used for financing activities	(6,145 )	(24,301 )	(316 )
Net increase (decrease) in cash and cash equivalents	3,466	692	(8,579 )
Cash and cash equivalents at beginning of year	1,648	956	9,535
Cash and cash equivalents at end of year	\$5,114	\$1,648	\$956

The accompanying notes are an integral part of these statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

**Basis of Consolidation and Presentation** — The consolidated financial statements include the accounts of Marine Products Corporation (a Delaware corporation) and its wholly owned subsidiaries (“Marine Products” or the “Company”). Marine Products, through Chaparral Boats, Inc. (“Chaparral”) and Robalo Acquisition Company LLC (“Robalo”), operates as a manufacturer of fiberglass powerboats and related products and services to a broad range of consumers worldwide.

The consolidated financial statements included herein may not necessarily be indicative of the future results of operations, financial position and cash flows of Marine Products.

The Company has only one reportable segment — its Powerboat Manufacturing business. The Company’s results of operations and its financial condition are not significantly reliant upon any single customer or product model. No single dealer accounted for more than 10 percent of net sales during 2013, 2012 or 2011. Net sales to the Company’s international dealers were approximately \$29 million in 2013, \$30 million in 2012, and \$23 million in 2011.

**Nature of Operations** — Marine Products is principally engaged in manufacturing powerboats and providing related products and services. Marine Products distributes fiberglass recreational boats through a network of domestic and international independent dealers.

**Common Stock** — Marine Products is authorized to issue 74,000,000 shares of common stock, \$0.10 par value. Holders of common stock are entitled to receive dividends when, as, and if declared by our Board of Directors out of legally available funds. Each share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. Holders of common stock do not have cumulative voting rights. In the event of any liquidation, dissolution or winding up of the Company, holders of common stock are entitled to ratable distribution of the remaining assets available for distribution to stockholders.

**Preferred Stock** — Marine Products is authorized to issue up to 1,000,000 shares of preferred stock, \$0.10 par value. As of December 31, 2013, there were no shares of preferred stock issued. The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of preferred stock as a class without series or, if so determined from time to time, in one or more series, and by filing a certificate pursuant to the applicable laws of the state of Delaware and to fix the designations, powers, preferences and rights, exchangeability for shares of any other class or classes of stock. Any preferred stock to be issued could rank prior to the common stock with respect to dividend rights and rights on liquidation.

**Share Repurchases** — The Company records the cost of share repurchases in stockholders’ equity as a reduction to common stock to the extent of par value of the shares acquired and the remainder is allocated to capital in excess of par value or retained earnings if capital in excess of par value has been depleted.

**Dividend** — On January 28, 2014, the Board of Directors approved a quarterly dividend of \$0.03 per common share payable March 10, 2014 to stockholders of record at the close of business on February 10, 2014.

Use of Estimates in the Preparation of Financial Statements — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used in the determination of sales incentives and discounts, warranty costs, and income taxes.

Sales Recognition — Marine Products recognizes sales when a fully executed agreement exists, prices are established, products are delivered to the dealer in the case of domestic dealers and collectability is reasonably assured. See “Deferred Revenue” below for recognition of sales to international dealers.

Deferred Revenue — Marine Products requires payment from international dealers, other than Canada, prior to shipment of products to these dealers. Amounts received from international dealers toward the purchase of boats are classified as deferred revenue and recognized as sales when the products are shipped.

Shipping and Handling Charges — The shipping and handling of the Company’s products to dealers is handled through a combination of third-party marine transporters and a company owned fleet of delivery trucks. Fees charged to customers for shipping and handling are included in net sales in the accompanying consolidated statements of operations and the related costs incurred by the Company are included in cost of goods sold.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

Advertising — Advertising expenses are charged to expense during the period in which they are incurred. Expenses associated with product brochures and other inventoriable marketing materials are deferred and amortized over the related model year which approximates the consumption of these materials. As of both December 31, 2013 and 2012 the Company had approximately \$264,000 in prepaid expenses related to unamortized product brochure costs.

Advertising expenses totaled approximately \$2,113,000 in 2013, \$2,000,000 in 2012 and \$1,353,000 in 2011 and are recorded in selling, general and administrative expenses.

Sales Incentives and Discounts — Sales incentives including dealer discounts and retail sales promotions are provided for and recorded as a reduction of sales or as a cost of sales as appropriate. The Company records the estimated cost of these incentives at the later of the recognition of the related sales or the announcement of a promotional program.

Cash and Cash Equivalents — Highly liquid investments with original maturities of three months or less when acquired are considered to be cash equivalents. The Company maintains its cash in bank accounts, which at times, may exceed federally insured limits.

Marketable Securities — Marine Products maintains investments at a large, well-capitalized financial institution. Marine Products' investment policy does not allow investment in any securities rated less than "investment grade" by national rating services.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designations as of each balance sheet date. Debt securities are classified as available-for-sale because the Company does not have the intent to hold the securities to maturity. Available-for-sale securities are stated at their fair values, with the unrealized gains and losses, net of taxes, reported as a separate component of stockholders' equity. The cost of securities sold is based on the specific identification method. Realized gains and losses, declines in value judged to be other than temporary, interest and dividends on available-for-sale securities are included in interest income. Net realized gains on marketable securities totaled \$61,000 in 2013, \$290,000 in 2012, and \$64,000 in 2011. Of the total gains realized, reclassification from other comprehensive income totaled approximately \$61,000 in 2013, \$290,000 in 2012, and \$64,000 in 2011. Gross unrealized gains on marketable securities totaled \$229,000 as of December 31, 2013 and \$332,000 as of December 31, 2012. Gross unrealized losses on marketable securities totaled \$16,000 as of December 31, 2013 and \$20,000 as of December 31, 2012. The amortized cost basis, fair value and net unrealized gains of the available-for-sale securities are as follows:

December 31, Type of Securities (in thousands)	2013			2012		
	Amortized Cost Basis	Fair Value	Net Unrealized Gain	Amortized Cost Basis	Fair Value	Net Unrealized Gain
Municipal Obligations	\$35,925	\$36,132	\$207	\$35,342	\$35,606	\$264
Corporate Obligations	450	456	6	1,270	1,317	48
Total	\$36,375	\$36,588	\$213	\$36,612	\$36,923	\$312

Municipal debt obligations consist primarily of municipal notes rated A3 or higher ranging in maturity from less than one year to over 10 years. Corporate obligations consist primarily of debentures and notes issued by other companies



ranging in maturity from one to two years. These securities are rated A1 or higher. Investments with remaining maturities of less than 12 months are considered to be current marketable securities. Investments with remaining maturities greater than 12 months are considered to be non-current marketable securities. The Company's non-current marketable securities as of December 31, 2013 are scheduled to mature between 2015 and 2037.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

**Accounts Receivable** — The majority of the Company's accounts receivable are due from dealers located in markets throughout the United States. Approximately 46 percent of Marine Products' domestic shipments are made pursuant to "floor plan financing" programs in which Marine Products' subsidiaries participate on behalf of their dealers with various major third-party financing institutions. Under these arrangements, a dealer establishes lines of credit with one or more of these third-party lenders for the purchase of boat inventory for sales to retail customers in their show room or during boat show exhibitions. When a dealer purchases and takes delivery of a boat pursuant to a floor plan financing arrangement, it draws against its line of credit and the lender pays the invoice cost of the boat directly to Marine Products within approximately ten business days. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance.

**Inventories** — Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market value. Market value is determined based on replacement cost for raw materials and net realizable value for work in process and finished goods.

**Property, Plant and Equipment** — Property, plant and equipment is carried at cost. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to income. Expenditures for additions, major renewals, and betterments are capitalized while expenditures for routine maintenance and repairs are expensed as incurred. Depreciation expense on operating equipment used in production is included in cost of goods sold in the accompanying consolidated statements of operations. All other depreciation is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Property, plant and equipment are reviewed for impairment when indicators of impairment exist.

**Goodwill and Other Intangibles** — Intangibles consist primarily of goodwill and trade names related to businesses acquired. Goodwill represents the excess of the purchase price over the fair value of net assets of businesses acquired. The carrying amount of goodwill was \$3,308,000 as of December 31, 2013 and 2012. The Company evaluates whether goodwill is impaired by comparing its market capitalization based on its closing stock price (Level 1 input) to the book value of its equity on the annual evaluation date. Based on this evaluation, the Company concluded that no impairment of its goodwill has occurred for the years ended December 31, 2013, 2012 and 2011.

**Investments** — The Company maintains certain securities in the non-qualified Supplemental Executive Retirement Plan that have been classified as trading. See Note 10 for further information regarding these securities.

**Warranty Costs** — The Company warrants the entire boat, excluding the engine, against defects in materials and workmanship for a period of one year. The Company also warrants the entire deck and hull, including its bulkhead and supporting stringer system, against defects in materials and workmanship for periods extending up to 10 years. The Company accrues for estimated future warranty costs at the time of the sale based on its historical claims experience. An analysis of the warranty accruals for the years ended December 31, 2013 and 2012 is as follows:

(in thousands)	2013	2012
Balance at beginning of year	\$2,522	\$1,973
Less: Payments made during the year	(1,558 )	(1,696 )
Add: Warranty provision for the current year	2,511	2,205
Changes to warranty provision for prior years	(65 )	40
Balance at end of year	\$3,410	\$2,522

Insurance Accruals — The Company fully insures its risks related to general liability, product liability, workers' compensation, and vehicle liability, whereas the health insurance plan is self-funded up to a maximum annual claim amount for each covered employee and related dependents. The estimated cost of claims under the self-insurance program is accrued as the claims are incurred and may subsequently be revised based on developments relating to such claims.

Research and Development Costs — The Company expenses research and development costs for new products and components as incurred. Research and development costs are included in selling, general and administrative expenses and totaled \$1,069,000 in 2013, \$768,000 in 2012, and \$789,000 in 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

**Repurchase Obligations** — The Company has entered into agreements with third-party floor plan lenders where it has agreed, in the event of default by the dealer, to repurchase MPC boats repossessed from the dealer. These arrangements are subject to maximum repurchase amounts and the associated risk is mitigated by the value of the boats repurchased. The Company accrues estimated losses when a loss, due primarily to the default of one of our dealers, is determined to be probable and the amount of the loss is reasonably estimable.

**Income Taxes** — Deferred tax liabilities and assets are determined based on the difference between the financial and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance against the carrying value of deferred tax assets if the Company concludes that it is more likely than not that the asset will not be realized through future taxable income.

**Stock-Based Compensation** — Stock-based compensation expense is recognized for all share-based payment awards, net of an estimated forfeiture rate. Thus, compensation cost is amortized for those shares expected to vest on a straight-line basis over the requisite service period of the award. See Note 10 for additional information.

**Earnings per Share** — Financial Accounting Standards Board (FASB) Auditing Standards Codification (ASC) Topic 260-10 “Earnings Per Share-Overall,” requires a basic earnings per share and diluted earnings per share presentation. See Note 10 for further information on restricted stock granted to employees.

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the respective periods. 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. In addition, the Company has periodically issued share-based payment awards that contain non-forfeitable rights to dividends and are therefore considered participating securities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

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:

(In thousands except per share data)	2013	2012	2011
Net income available for stockholders:	\$7,528	\$6,979	\$6,731
Less: Dividends paid			
Common Stock	(5,525 )	(23,135 )	—
Restricted shares of common stock	(180 )	(677 )	—
Undistributed earnings (loss)	\$1,823	\$ (16,833 )	\$6,731
Allocation of undistributed earnings (loss):			
Common Stock	\$1,762	\$ (16,329 )	\$6,551
Restricted shares of common stock	61	(504 )	180
Basic shares outstanding:			
Common Stock	35,556	35,530	35,385
Restricted shares of common stock	1,264	1,126	987
	36,820	36,656	36,372
Diluted shares outstanding:			
Common Stock	35,556	35,530	35,385
Dilutive effect of options	324	148	363
	35,880	35,678	35,748
Restricted shares of common stock	1,264	1,126	987
	37,144	36,804	36,735
Basic earnings per share:			
Common Stock:			
Distributed earnings	\$0.15	\$0.65	\$—
Undistributed earnings (loss)	0.05	(0.46 )	0.19
	\$0.20	\$0.19	\$0.19
Restricted shares of common stock:			
Distributed earnings	\$0.14	\$0.60	\$—
Undistributed earnings (loss)	0.05	(0.45 )	0.18
	\$0.19	\$0.15	\$0.18
Diluted earnings per share:			
Common Stock:			
Distributed earnings	\$0.15	\$0.65	\$—
Undistributed earnings (loss)	0.05	(0.46 )	0.18
	\$0.20	\$0.19	\$0.18

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

**Fair Value of Financial Instruments** — The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and marketable securities. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of the short-term nature of such instruments. The Company's marketable securities are classified as available-for-sale securities with the exception of investments held in the non-qualified Supplemental Executive Retirement Plan ("SERP") which are classified as trading securities. All of these securities are carried at fair value in the accompanying consolidated balance sheets. See Note 8 for further information regarding the fair value measurement of assets and liabilities.

**Concentration of Suppliers** — The Company purchases a significant number of its sterndrive engines from only two available suppliers. This concentration of suppliers could impact our sales and profitability in the event of a sudden interruption in the delivery of these engines.

**New Accounting Standards** —

During the year ended December 31, 2013, the FASB issued the following Accounting Standards Updates (ASU):

**Recently Adopted Accounting Pronouncements:**

Accounting Standards Update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. In addition, an entity is required to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The Company adopted these provisions in the first quarter of 2013 and has included the required additional disclosures in the accompanying financial statements and notes.

**Recently Issued Accounting Pronouncements Not Yet Adopted:**

Accounting Standards Update 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this ASU requires an unrecognized tax benefit, or a portion thereof, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The only exception would be if the deferred taxes related to these items are not available to settle any additional income taxes that would result from the disallowance of a tax position either by statute or at the entity's choosing. In such cases, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective prospectively for fiscal years beginning after December 15, 2013 and for interim reporting periods within those years, with early adoption being permitted. The Company plans to adopt these provisions in the first quarter of 2014 and does not expect the adoption to have a material impact on the Company's consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

## NOTE 2: ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

December 31, (in thousands)	2013	2012
Trade receivables	\$1,668	\$1,607
Other	378	209
Total	2,046	1,816
Less: allowance for doubtful accounts	(25 )	(22 )
Net accounts receivable	\$2,021	\$1,794

Trade receivables consist primarily of balances related to the sales of boats which are shipped pursuant to “floor-plan financing” programs with qualified lenders. Other receivables consist primarily of rebate receivables from various suppliers. Changes in the Company’s allowance for doubtful accounts are disclosed in Schedule II on page 62 of this report.

## NOTE 3: INVENTORIES

Inventories consist of the following:

December 31, (in thousands)	2013	2012
Raw materials	\$15,901	\$17,205
Work in process	7,435	6,597
Finished goods	5,523	4,357
Total inventories	\$28,859	\$28,159

## NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are presented at cost, net of accumulated depreciation, and consist of the following:

December 31, (in thousands)	Estimated Useful Lives	2013	2012
Land	N/A	\$657	\$657
Buildings	7-40	17,113	17,096
Operating equipment and property	3-15	9,768	9,913
Furniture and fixtures	5-7	1,915	1,842
Vehicles	5-10	6,422	6,207
Gross property, plant and equipment		35,875	35,715
Less: accumulated depreciation		(24,610 )	(24,245 )
Net property, plant and equipment		\$11,265	\$11,470

Depreciation expense was \$726,000 in 2013, \$768,000 in 2012 and \$889,000 in 2011.

NOTE 5: ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

December 31, (in thousands)	2013	2012
Accrued payroll and related expenses	\$1,393	\$1,122
Accrued sales incentives and discounts	3,025	3,326
Accrued warranty costs	3,410	2,522
Deferred revenue	836	1,389
Other	329	641
Total accrued expenses and other liabilities	\$8,993	\$9,000



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

## NOTE 6: INCOME TAXES

The following table lists the components of the provision for income taxes:

Years ended December 31, (in thousands)	2013	2012	2011
Current provision (benefit):			
Federal	\$2,325	\$3,146	\$1,757
State	99	94	(14 )
Deferred provision (benefit):			
Federal	57	(493 )	(90 )
State	21	(5 )	14
Total income tax provision	\$2,502	\$2,742	\$1,667

A reconciliation between the federal statutory rate and Marine Products' effective tax rate is as follows:

Years ended December 31,	2013	2012	2011
Federal statutory rate	34.0 %	34.0 %	34.0 %
State income taxes, net of federal benefit	0.7	0.5	0.8
Research and experimentation credit	(4.9 )	—	(0.2 )
Tax-exempt interest	(1.4 )	(2.3 )	(3.0 )
Tax-exempt (gain) loss on SERP assets	(1.2 )	(0.6 )	0.2
Tax-exempt gain – benefit plan financing	—	—	(8.4 )
Manufacturing deduction	(2.7 )	(3.0 )	(2.0 )
Change in valuation allowance	0.2	—	—
Other	0.2	(0.4 )	(1.5 )
Effective tax rate	24.9 %	28.2 %	19.9 %

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

Significant components of the Company's deferred tax assets and liabilities are as follows:

December 31, (in thousands)	2013	2012
Deferred tax assets:		
Warranty costs	\$1,211	\$895
Sales incentives and discounts	542	942
Stock-based compensation	938	838
Pension	1,919	2,212
All others	268	331
State credits and NOL's	4,634	4,450
Valuation allowance	(4,359)	(4,155)
Total deferred tax assets	5,153	5,513
Deferred tax liabilities:		
Depreciation and amortization expense	(880)	(699)
Net deferred tax assets	\$4,273	\$4,814

Total net income tax payments were \$2,600,000 in 2013, \$3,655,000 in 2012 and \$880,000 in 2011. As of December 31, 2013 the Company had net operating loss carry forwards related to state income taxes and credits of approximately \$18.5 million that will expire between 2014 and 2033. As of December 31, 2013 the Company has a valuation allowance of approximately \$4.4 million, representing the tax affected amount of state tax credits and loss carry forwards that the Company does not expect to utilize, against the corresponding deferred tax asset.

The Company's policy is to record interest and penalties related to income tax matters as income tax expense. Accrued interest and penalties were immaterial as of December 31, 2013 and 2012.

In accordance with the accounting guidance relating to the accounting for uncertainty in income tax reporting, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions, the Company did not recognize a material adjustment in the liability for unrecognized income tax benefits.

As of December 31, 2013 and 2012, our liability for unrecognized tax benefits was \$11,000 and \$14,000, respectively, all of which would affect our effective rate if recognized.

It is reasonably possible that the amount of the unrecognized benefits with respect to our unrecognized tax positions will increase or decrease in the next 12 months. These changes may be the result of, among other things, state tax settlements under voluntary disclosure agreements. However, quantification of an estimated range cannot be made at this time.

The Company and its subsidiaries are subject to U.S. federal and state income tax in multiple jurisdictions. In many cases our uncertain tax positions are related to tax years that remain open and subject to examination by the relevant taxing authorities. The Company's 2010 through 2013 tax years remain open to examination. Additional years may be open to the extent attributes are being carried forward to an open year.

The American Taxpayer Relief Act of 2012 (“Act”) was signed into law on January 2, 2013 and includes an extension for one year of the 50% bonus depreciation allowance. The provision specifically applies to qualifying property placed in service before January 1, 2014. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provision had no impact on our 2013 effective tax rate. Additionally, the Act retroactively reinstated the provisions of the research and experimentation credits (“R&E credits”) for 2012 and 2013. As a result of the retroactive extension, our effective rate for 2013 included a tax benefit from the R&E credits attributable to 2012 and 2013.

On September 23, 2013, the U.S. Department of the Treasury issued final regulations under Internal Revenue Code Sections 162(a) and 263(a) that provide guidance on the deduction and capitalization of expenditures related to tangible property. These regulations will result in our adoption of certain mandatory and elective accounting methods with respect to property and equipment, inventory and supplies. We have evaluated these accounting method changes, which are effective January 1, 2014. These regulations do not have a material impact on our results of operations or financial position.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

## NOTE 7: ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive (loss) income consists of the following:

(in thousands)	Pension Adjustment	Unrealized Gain on Securities	Total
Balance at December 31, 2011	\$(1,666 )	\$208	\$(1,458 )
Change during 2012:			
Before-tax amount	—	(464 )	(464 )
Tax provision (benefit)	—	165	165
Reclassification adjustment, net of taxes			
Amortization of net loss	(105 )	—	(105 )
Net realized gain	—	290	290
Total activity in 2012	(105 )	(9 )	(114 )
Balance at December 31, 2012	(1,771 )	199	(1,572 )
Change during 2013:			
Before-tax amount	—	(190 )	(190 )
Tax provision (benefit)	—	67	67
Reclassification adjustment, net of taxes			
Amortization of net gain	781	—	781
Net realized gain	—	61	61
Total activity in 2013	781	(62 )	719
Balance at December 31, 2013	\$(990 )	\$137	\$(853 )

## NOTE 8: FAIR VALUE MEASUREMENTS

The various inputs used to measure assets at fair value establish a hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

1. Level 1 – Quoted market prices in active markets for identical assets or liabilities.
2. Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
3. Level 3 – Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the balance sheet as of December 31, 2013 and 2012:

Fair Value Measurements at December 31, 2013 with:

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(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			
Trading securities	\$ —	\$ 6,388	\$ —
Available-for-sale securities:			
Municipal Obligations	\$ —	\$ 36,132	—
Corporate Obligations	—	456	—
Total	\$ —	\$ 36,588	\$ —

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

Years ended December 31, 2013, 2012 and 2011

(in thousands)	Fair Value Measurements at December 31, 2012 with:		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			
Trading securities	\$ —	\$ 6,026	\$ —
Available-for-sale securities:			
Municipal Obligations	\$ —	\$ 35,606	—
Corporate Obligations	—	1,317	—
Total	\$ —	\$ 36,923	\$ —

The Company determines the fair value of the marketable securities that are available-for-sale through quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active. The trading securities are comprised of the SERP assets, as described in Note 10, and are recorded primarily at their net cash surrender values, which approximates fair value, as provided by the issuing insurance company. Significant observable inputs, in addition to quoted market prices, were used to value the trading securities. As a result, the Company classified these investments as using level 2 inputs. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods. For the year ended December 31, 2013 there were no significant transfers in or out of levels 1, 2 or 3.

The carrying amount of other financial instruments reported in the balance sheet for current assets and current liabilities approximate their fair values because of the short-term maturity of these instruments. The Company currently does not use the fair value option to measure any of its existing financial instruments and has not determined whether or not it will elect this option for financial instruments it may acquire in the future.

## NOTE 9: COMMITMENTS AND CONTINGENCIES

**Lawsuits** — The Company is a defendant in certain lawsuits which allege that plaintiffs have been damaged as a result of the use of the Company's products. The Company is vigorously contesting these actions. Management, after consultation with legal counsel, is of the opinion that the outcome of these lawsuits will not have a material adverse effect on the financial position, results of operations or liquidity of Marine Products.

**Dealer Floor Plan Financing** — To assist dealers in obtaining financing for the purchase of its boats for inventory, the Company has entered into agreements with various dealers and selected third-party floor plan lenders to guarantee varying amounts of qualifying dealers' debt obligations. The Company's obligation under these guarantees becomes effective in the case of a default under the financing arrangement between the dealer and the third party lender. The agreements provide for the return of repossessed boats to the Company in new and unused condition subject to normal wear and tear as defined, in exchange for the Company's assumption of specified percentages of the debt obligation on

those boats, up to certain contractually determined dollar limits by lender.

There were no material repurchases of inventory under contractual agreements during 2013 or 2012. Management continues to monitor the risk of additional defaults and resulting repurchase obligations based in part on information provided by the third-party floor plan lenders and will adjust the guarantee liability at the end of each reporting period based on information reasonably available at that time.

The Company currently has an agreement with one of the floor plan lenders whereby the contractual repurchase limit is to not exceed 16 percent of the amount of the average net receivables financed by the floor plan lender for dealers during the prior 12 month period, which was \$7.1 million as of December 31, 2013. The Company has contractual repurchase agreements with additional lenders with an aggregate maximum repurchase obligation of approximately \$6.2 million, with various expiration and cancellation terms of less than one year, for an aggregate repurchase obligation with all financing institutions of approximately \$13.3 million as of December 31, 2013. This repurchase obligation risk is mitigated by the value of the boat repurchased.

Lease Obligations — In June 2001, the Company entered into a lease transaction for existing boat manufacturing space located in Valdosta, Georgia. This lease was accounted for as a capital lease and was paid in full in 2012, and is reflected in the financing section of the statement of cash flows.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

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Minimum annual operating lease obligations with terms in excess of one year, in effect at December 31, 2013, are summarized in the following table:

(in thousands)

2014	\$	161
2015		157
2016		161
2017		144
2018		134
Thereafter		—
Total rental commitments	\$	757

Total rent expense charged to operations was approximately \$140,000 in 2013, \$106,000 in 2012 and \$121,000 in 2011.

**Income Taxes** — The amount of income taxes the Company pays is subject to ongoing audits by federal and state tax authorities, which often result in proposed assessments. Other long-term liabilities included the Company's estimated liabilities for these probable assessments and totaled approximately \$45,000 as of December 31, 2013 and \$48,000 as of December 31, 2012.

**Employment Agreements** — The Company has agreements with two employees, which provide for a monthly payment to each of the employees equal to 10 percent of profits (defined as pretax income before goodwill adjustments and certain allocated corporate expenses) in addition to a base salary. The expense under these agreements totaled approximately \$3,421,000 in 2013, \$3,294,000 in 2012 and \$2,331,000 in 2011 and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

## NOTE 10: EMPLOYEE BENEFIT PLANS

## Supplemental Executive Retirement Plan (SERP)

The Company permits selected highly compensated employees to defer a portion of their compensation into the SERP. The SERP assets are invested primarily in company-owned life insurance ("COLI") policies as a funding source to satisfy the obligation of the SERP. The assets are subject to claims by creditors, and the Company can designate them to another purpose at any time. Investments in COLI policies consist of variable life insurance policies of \$8.2 million as of December 31, 2013 and \$7.7 million as of December 31, 2012. In the COLI policies, the Company is able to allocate assets across a set of choices provided by the insurance company, including fixed income securities and equity funds. The COLI policies are recorded at their net cash surrender values, which approximates fair value, as provided by the issuing insurance company, whose Standard & Poor's credit rating was A+.

The Company classifies the SERP assets as trading securities as described in Note 1. The fair value of these assets totaled \$6,388,000 as of December 31, 2013 and \$6,026,000 as of December 31, 2012. The SERP assets are reported in other assets on the consolidated balance sheets and changes related to the fair value of the assets are included in selling, general and administrative expenses in the consolidated statements of operations. Trading gains (losses)



related to the SERP assets totaled \$361,000 in 2013, \$181,000 in 2012 and \$(38,000) in 2011. The SERP liabilities are recorded on the balance sheet in pension liabilities with any change in the fair value of the SERP liabilities recorded as selling, general and administrative expenses in the consolidated statements of operations.

Retirement Income Plan — Marine Products participates in the tax-qualified, defined benefit, noncontributory, trusteed retirement income plan sponsored by RPC, Inc. (“RPC”) that covers substantially all employees with at least one year of service prior to 2002.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

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The Company's fair value of the plan assets exceeded the projected benefit obligation for its Retirement Income Plan by \$1,014,000 and thus the plan was over-funded as of December 31, 2013. The following table sets forth the funded status of the Retirement Income Plan and the amounts recognized in Marine Products' consolidated balance sheets:

December 31, (in thousands)	2013	2012
ACCUMULATED BENEFIT OBLIGATION, END OF YEAR	\$4,873	\$5,695
CHANGE IN PROJECTED BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	\$5,695	\$5,292
Service cost	—	—
Interest cost	235	253
Actuarial (gain) loss	(828 )	379
Benefits paid	(229 )	(229 )
Projected benefit obligation at end of year	\$4,873	\$5,695
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	\$5,282	\$4,313
Actual return on plan assets	684	484
Employer contributions	150	714
Benefits paid	(229 )	(229 )
Fair value of plan assets at end of year	\$5,887	\$5,282
Funded status at end of year	\$1,014	\$(413 )

December 31, (in thousands)	2013	2012
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS		
CONSIST OF:		
Noncurrent assets	\$1,014	\$—
Current liabilities	—	—
Noncurrent liabilities	—	(413 )
	\$1,014	\$(413 )

The funded status of the Retirement Income Plan was recorded in the consolidated balance sheets in other assets as of December 31, 2013 and in pension liabilities as of December 31, 2012.

December 31, (in thousands)	2013	2012
AMOUNTS (PRE-TAX) RECOGNIZED IN ACCUMULATED OTHER		
COMPREHENSIVE LOSS CONSIST OF:		
Net loss	\$ 1,537	\$ 2,748
Prior service cost (credit)	—	—
Net transition obligation (asset)	—	—
	\$ 1,537	\$ 2,748

The accumulated benefit obligation for the Retirement Income Plan at December 31, 2013 and 2012 has been disclosed above. The Company uses a December 31 measurement date for this qualified plan.

Amounts recorded in the consolidated balance sheet as pension liabilities consist of:

December 31, (in thousands)	2013	2012
SERP liability	\$(6,420 )	\$(5,819 )
Funded status	—	(413 )
Pension liabilities	\$(6,420 )	\$(6,232 )

Marine Products' funding policy is to contribute to the Retirement Income Plan the amount required, if any, under the Employee Retirement Income Security Act of 1974. Contributions to the plan totaled \$150,000 during 2013 and \$714,000 during 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

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The components of net periodic benefit cost are summarized as follows:

Years ended December 31, (in thousands)	2013	2012	2011
Service cost for benefits earned during the period	\$—	\$—	\$—
Interest cost on projected benefit obligation	235	253	267
Expected return on plan assets	(369 )	(328 )	(324 )
Amortization of net loss	68	61	38
	\$(66 )	\$(14 )	\$(19 )

The Company recognized a pre-tax increase to the funded status in accumulated other comprehensive income of \$1,211,000 in 2013 compared to pre-tax decreases of \$163,000 in 2012 and \$782,000 in 2011. There were no previously unrecognized prior service costs during 2013, 2012 and 2011. The pre-tax amounts recognized in other comprehensive income for the years ended December 31, 2013, 2012 and 2011 are summarized as follows:

(in thousands)	2013	2012	2011
Net (gain) loss	\$(1,143 )	\$224	\$820
Amortization of net loss	(68 )	(61 )	(38 )
Net transition obligation (asset)	—	—	—
Amount recognized in accumulated other comprehensive income	\$(1,211 )	\$163	\$782

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in 2013 are as follows:

(in thousands)	2013
Amortization of net loss	\$ 32
Prior service cost (credit)	—
Net transition obligation (asset)	—
Estimated net periodic cost	\$ 32

The weighted average assumptions as of December 31 used to determine the projected benefit obligation and net benefit cost were as follows:

December 31,	2013	2012	2011
<b>PROJECTED BENEFIT OBLIGATION:</b>			
Discount rate	5.35 %	4.34 %	5.09 %
Rate of compensation increase	N/A	N/A	N/A
<b>NET BENEFIT COST:</b>			
Discount rate	4.34 %	5.09 %	5.58 %

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Expected return on plan assets	7.00	%	7.00	%	7.00	%
Rate of compensation increase	N/A		N/A		N/A	

The Company's expected return on assets assumption is derived from a detailed periodic assessment by its management and investment advisor. It includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the assessment gives appropriate consideration to recent fund performance and historical returns, the rate of return assumption is derived primarily from a long-term, prospective view. Based on its recent assessment, the Company has concluded that its expected long-term return assumption of seven percent is reasonable.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marine Products Corporation and Subsidiaries

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The plan's weighted average asset allocation at December 31, 2013 and 2012 by asset category along with the target allocation for 2014 are as follows:

Asset Category	Target Allocation for 2014	Percentage of Plan Assets as of December 31, 2013	Percentage of Plan Assets as of December 31, 2012
Cash and Cash Equivalents	0% - 5 %	0.6 %	0.2 %
Debt Securities – Core Fixed Income	15% - 50 %	25.3 %	20.2 %
Tactical – Fund of Equity and Debt Securities	—	—	15.1 %
Domestic Equity Securities	0% - 30 %	26.6 %	15.2 %
Global Equity Securities	—	—	16.0 %
International Equity Securities	0% - 30 %	31.4 %	15.1 %
Real Estate	0% - 20 %	8.3 %	9.2 %
Real Return	0% - 20 %	7.8 %	9.0 %
Total	100.0 %	100.00 %	100.0 %

The Company's overall investment strategy is to achieve a mix of approximately 70 percent of investments for long-term growth and 30 percent for near-term benefit payments, with a wide diversification of asset types, fund strategies and fund managers. Equity securities primarily include investments in large-cap and small-cap companies domiciled domestically and internationally. Fixed-income securities include corporate bonds, mortgage-backed securities, sovereign bonds and U.S. Treasuries. Other types of investments include real estate funds and private equity funds that follow several different investment strategies. For each of the asset categories in the pension plan, the investment strategy is identical – maximize the long-term rate of return on plan assets with an acceptable level of risk in order to minimize the cost of providing pension benefits. The investment policy establishes a target allocation for each asset class which is rebalanced as required. The plans utilize a number of investment approaches, including but not limited to individual market securities, equity and fixed income funds in which the underlying securities are marketable, and debt funds to achieve this target allocation. The Company and management are considering making a contribution to the pension plan of approximately \$135,000 during fiscal year 2014.

Some of our assets, primarily our private equity and real estate funds, do not have readily determinable market values given the specific investment structures involved and the nature of the underlying investments. For plan asset reporting as of December 31, 2013, publicly traded asset pricing was used where possible. For assets without readily determinable values, estimates were derived from investment manager statements combined with discussions focusing on underlying fundamentals and significant events. Additionally, these investments are categorized as level 3 investments and are valued using significant non-observable inputs which do not have a readily determinable fair value. In accordance with ASU No. 2011-12 "Investments In Certain Entities That Calculate Net Asset Value per Share (Or Its Equivalent)," these investments are valued based on the net asset value per share calculated by the funds in which the plan has invested. These valuations are subject to judgments and assumptions of the funds which may prove to be incorrect, resulting in risks of incorrect valuation of these investments. The Company seeks to mitigate these risks by evaluating the appropriateness of the funds' judgments and assumptions by reviewing the financial data

included in the funds' financial statements for reasonableness.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Marine Products Corporation and Subsidiaries  
Years ended December 31, 2013, 2012 and 2011

The following tables present our plan assets using the fair value hierarchy as of December 31, 2013 and 2012. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. See Note 8 for a brief description of the three levels under the fair value hierarchy.

Fair Value Hierarchy as of December 31, 2013: