MARINE PRODUCTS CORP
Form 10-Q
November 07, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

Commission File No. 1-16263

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

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

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

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

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

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

As of October 30, 2008, Marine Products Corporation had 36,430,449 shares of common stock outstanding.

Marine Products Corporation

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
(In thousands)
(Unaudited)

	September 30, 2008	December 31, 2007 (Note 1)
ASSETS		
Cash and cash equivalents	$ 5,045	$ 3,233
Marketable securities	13,970	8,870
Accounts receivable, net	1,400	3,540
Inventories	24,707	33,159
Income taxes receivable	1,635	1,321
Deferred income taxes	1,415	2,746
Prepaid expenses and other current assets	1,792	2,159
Total current assets	49,964	55,028
Property, plant and equipment, net	14,933	15,944
Goodwill	3,308	3,308
Marketable securities	38,551	36,087
Deferred income taxes	2,628	1,098
Other assets	6,923	7,261
Total assets	$ 116,307	$ 118,726
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 4,676	$ 4,621
Accrued expenses and other liabilities	10,644	14,294
Total current liabilities	15,320	18,915
Pension liabilities	5,333	5,572
Other long-term liabilities	497	482
Total liabilities	21,150	24,969
Common stock	3,643	3,602
Capital in excess of par value	-	-
Retained earnings	91,690	90,105
Accumulated other comprehensive (loss) income	(176)	50
Total stockholders' equity	95,157	93,757
Total liabilities and stockholders' equity	$ 116,307	$ 118,726

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In thousands except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net sales	$ 31,582	$ 52,481	$ 152,858	$ 185,326
Cost of goods sold	26,478	41,215	123,263	145,162
Gross profit	5,104	11,266	29,595	40,164
Selling, general and administrative expenses	4,086	6,471	18,965	22,834
Operating income	1,018	4,795	10,630	17,330
Interest income	623	585	1,815	1,948
Income before income taxes	1,641	5,380	12,445	19,278
Income tax provision	957	2,151	3,733	6,857
Net income	$ 684	$ 3,229	$ 8,712	$ 12,421
Earnings per share				
Basic	$ 0.02	$ 0.09	$ 0.24	$ 0.33
Diluted	$ 0.02	$ 0.08	$ 0.24	$ 0.32
Dividends per share	$ 0.065	$ 0.060	$ 0.195	$ 0.180
Average shares outstanding				
Basic	35,824	37,028	35,773	37,329
Diluted	36,476	38,154	36,465	38,501

The accompanying notes are an integral part of these consolidated statements.
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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
(In thousands)
(Unaudited)

	Comprehensive Income	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other	Total
Balance, December 31, 2007		36,018	$ 3,602	$ —	$ 90,105	$ 50	$ 93,757
Stock issued for stock incentive plans, net		867	87	1,948	—	—	2,035
Stock purchased and retired		(455)	(46)	(3,672)	(53)	—	(3,771)
Net income	$ 8,712	—	—	—	8,712	—	8,712
Other comprehensive income, net of tax:							
Unrealized loss on securities, net of reclassification adjustment	(226)	—	—	—	—	(226)	(226)
Comprehensive income	$ 8,486						
Dividends declared		—	—	—	(7,074)	—	(7,074)
Stock-based compensation		—	—	1,116	—	—	1,116
Excess tax benefits for share - based payments		—	—	608	—	—	608
Balance, September 30, 2008		36,430	$ 3,643	$ -	$ 91,690	$ (176)	$ 95,157

The accompanying notes are an integral part of this consolidated statement.
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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In thousands)
(Unaudited)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
OPERATING ACTIVITIES		
Net income	$ 8,712	$ 12,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,300	1,503
Gain on sale of equipment and property	(14)	-
Stock-based compensation expense	1,116	1,122
Excess tax benefits for share-based payments	(608)	(335)
Deferred income tax (benefit) provision	(228)	816
(Increase) decrease in assets:		
Accounts receivable	2,140	(2,636)
Inventories	8,452	(3,481)
Prepaid expenses and other current assets	367	242
Income taxes receivable	294	(291)
Other non-current assets	338	(850)
Increase (decrease) in liabilities:		
Accounts payable	55	4,491
Accrued expenses and other liabilities	(3,650)	(284)
Other long-term liabilities	(224)	220
Net cash provided by operating activities	18,050	12,938
INVESTING ACTIVITIES		
Capital expenditures	(289)	(1,123)
Proceeds from sale of property and equipment	14	-
Purchases of marketable securities	(46,302)	(61,483)
Sales of marketable securities	37,387	15,657
Maturities of marketable securities	1,000	-
Net cash used for investing activities	(8,190)	(46,949)
FINANCING ACTIVITIES		
Payment of dividends	(7,074)	(6,793)
Excess tax benefits for share-based payments	608	335
Cash paid for common stock purchased and retired	(1,619)	(7,840)
Proceeds received upon exercise of stock options	37	103
Net cash used for financing activities	(8,048)	(14,195)
Net increase (decrease) in cash and cash equivalents	1,812	(48,206)
Cash and cash equivalents at beginning of period	3,233	54,456
Cash and cash equivalents at end of period	$ 5,045	$ 6,250

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (all of which consisted of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007.

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

2. EARNINGS PER SHARE

Statement of Financial Accounting Standard (“SFAS”) 128, “Earnings Per Share,” requires a basic earnings per share and diluted earnings per share presentation. The two calculations differ as a result of the dilutive effect of stock options and time lapse restricted shares and performance restricted shares included in diluted earnings per share, but excluded from basic earnings per share. Basic and diluted earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the respective periods. A reconciliation of weighted average shares outstanding is as follows:

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except per share data amounts)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net income (numerator for basic and diluted earnings per share)	$ 684	$ 3,229	$ 8,712	$ 12,421
Shares (denominator):				
Weighted average shares outstanding (denominator for basic earnings per share)	35,824	37,028	35,773	37,329
Dilutive effect of stock options and restricted shares	652	1,126	692	1,172
Adjusted weighted average shares outstanding (denominator for diluted earnings per share)	36,476	38,154	36,465	38,501
Earnings Per Share:				
Basic	$ 0.02	$ 0.09	$ 0.24	$ 0.33
Diluted	$ 0.02	$ 0.08	$ 0.24	$ 0.32

The effect of certain stock options as shown below were excluded in the computation of weighted average shares outstanding because the effect of their inclusion would be anti-dilutive to earnings per share:

(in thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Stock options	47	48	47	48

3. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.” FSP 157-3 clarifies the application of SFAS No. 157, “Fair Value Measurements,” in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Certain key existing principles of SFAS 157 illustrated in the example include the following: determining fair value in a dislocated market depends on the facts and circumstances and may require the use of significant judgment when evaluating the various sources of the fair value measurement including individual transactions or broker quotes. In addition, FSP FAS 157-3 states that if an entity uses its own assumptions to determine fair value, it must include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. The Company adopted FSP FAS 157-3 in the third quarter of 2008 and has concluded that it does not have a material effect on its consolidated financial statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees – An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161." This FSP amends FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," to require an additional disclosure about the current status of the payment/performance risk of a guarantee. Further this FSP clarifies the Board's intent about the effective date of FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities." The provisions of this FSP that amend SFAS 161 and FIN 45 are effective for reporting periods ending after November 15, 2008 and the clarification of the effective date of SFAS 161 is effective upon issuance of this FSP. The Company is currently in the process of determining the additional disclosures required upon the adoption of this FSP.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," to clarify that all outstanding unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities. An entity must include participating securities in its calculation of basic and diluted earnings per share (EPS) pursuant to the two-class method, as described in FASB Statement 128, Earnings per Share. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company intends to adopt FSP EITF 03-6-1 effective January 1, 2009 and apply its provisions retrospectively to all prior-period EPS data presented in its financial statements. The Company has periodically issued share-based payment awards that contain non-forfeitable rights to dividends and is in the process of evaluating the impact that the adoption of FSP EITF 03-6-1 will have on its financial statements.

In April 2008, the FASB issued FSP FAS No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The FSP requires an entity that is estimating the useful life of a recognized intangible asset to consider its historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension that are both consistent with the asset's highest and best use and adjusted for entity-specific factors under SFAS No. 142. The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The Company does not expect the adoption of FSP FAS No. 142-3 to have a material effect on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In May 2008, the FASB issued SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles.” SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS 162 is not expected to have a significant impact on the Company’s consolidated financial statements.

In March 2008, the FASB issued SFAS 161, “Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133.” SFAS 161 requires enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities; and (c) derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008 with early application being encouraged. The Company does not have any derivative instruments nor is currently involved in hedging activities and therefore adoption of SFAS 161 is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-1, “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13,” and FSP FAS 157-2, “Effective Date of FASB Statement No. 157.” These FSPs:

- Exclude certain leasing transactions accounted for under FASB Statement No. 13, Accounting for Leases, from the scope of Statement 157. The exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of Statement 157.

- Defer the effective date in FASB Statement No. 157, Fair Value Measurements, for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FSP FAS 157-1 is effective upon the initial adoption of Statement 157. FSP FAS 157-2 is effective February 12, 2008. The Company has adopted the provisions of FSP 157-1 and 157-2 in the first quarter of 2008. See Note 12 – "Fair Value Measurements" for details regarding the impact of adoption.

4. COMPREHENSIVE INCOME

The components of comprehensive income for the applicable period are as follows:

(in thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Comprehensive income:				
Net income	$ 684	$ 3,229	$ 8,712	$ 12,421
Other comprehensive loss, net of taxes:				
Unrealized (loss) gain on securities available for sale, net of reclassification adjustment during the period	(94)	185	(226)	181
Total comprehensive income	$ 590	$ 3,414	$ 8,486	$ 12,602

5. STOCK-BASED COMPENSATION

The Company reserved 5,250,000 shares of common stock under the 2001 and 2004 Stock Incentive Plans each of which expires ten years from the date of approval. These plans provide for the issuance of various forms of stock incentives, including, among others, incentive and non-qualified stock options and restricted stock. As of September 30, 2008, there were approximately 1,778,000 shares available for grants.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock-based compensation for the three months and nine months ended September 30, 2008 and 2007 were as follows:

(in thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Pre – tax cost	$ 371	$ 374	$ 1,116	$ 1,122
After tax cost	$ 247	$ 269	$ 747	$ 791

Stock Options

Transactions involving Marine Products stock options for the nine months ended September 30, 2008 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2008	1,670,124	$ 3.03	3.1 years	
Granted	-	-	N/A	
Exercised	(675,227)	3.22	N/A	
Forfeited	(2,550)	6.77	N/A	
Expired	-	-	N/A	
Outstanding at September 30, 2008	992,347	$ 2.89	2.8 years	$ 5,369,000
Exercisable at September 30, 2008	982,897	$ 2.80	2.7 years	$ 5,406,000

The total intrinsic value of share options exercised was approximately $3,537,000 during the nine months ended September 30, 2008 and approximately $2,151,000 during the nine months ended September 30, 2007. Tax benefits associated with the exercise of non-qualified stock options during the nine months ended September 30, 2008 were approximately $561,000. There were no recognized excess tax benefits associated with the exercise of stock options during the nine months ended September 30, 2007, since all of the options exercised were incentive stock options which do not generate tax deductions for the Company.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock

The following is a summary of the changes in non-vested restricted shares for the nine months ended September 30, 2008:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at January 1, 2008	525,350	$ 11.15
Granted	194,000	$ 7.08
Vested	(107,450)	$ 10.50
Forfeited	(6,200)	$ 10.80
Non-vested shares at September 30, 2008	605,700	$ 9.90

The total fair value of shares vested was approximately $1,239,000 during the nine months ended September 30, 2008 and $2,094,000 during the nine months ended September 30, 2007. For the nine months ended September 30, 2008, tax benefits for compensation tax deductions in excess of compensation expense totaling approximately $33,000 were credited to capital in excess of par value and are classified as financing cash flows in accordance with SFAS 123R.

Other Information

As of September 30, 2008, total unrecognized compensation cost related to non-vested restricted shares was approximately $4,711,000. This cost is expected to be recognized over a weighted-average period of 3.8 years. As of September 30, 2008, total unrecognized compensation cost related to non-vested stock options was approximately $50,000 and is expected to be recognized over a weighted average period of approximately one year.

6. MARKETABLE SECURITIES

Marine Products maintains investments held with a large, well-capitalized financial institution. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates 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 tax, 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. The fair value and the unrealized gains (losses) of the available-for-sale securities are as follows:

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)	September 30, 2008		December 31, 2007	
Type of Securities	Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)
Municipal Obligations	$ 52,521	$ 55	$ 44,957	$ 405

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.

7. WARRANTY COSTS AND OTHER CONTINGENCIES

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 ranging from five to ten years.

An analysis of the warranty accruals for the nine months ended September 30, 2008 and 2007 is as follows:

(in thousands)	2008	2007
Balances at beginning of year	$ 4,768	$ 5,337
Less: Payments made during the period	(3,419)	(4,152)
Add: Warranty provision for the period	2,901	3,574
Changes to warranty provision for prior years	(182)	219
Balances at September 30	$ 4,068	$ 4,978

Repurchase Obligations

The Company is a party to various agreements with third party lenders that provide floor plan financing to qualifying dealers whereby the Company guarantees varying amounts of debt on boats in dealer 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 provide for the return of repossessed boats in "like new" condition 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 by lender.

Based on amounts outstanding as of September 30, 2008, the maximum contractual obligation to these lenders totaled approximately $6.7 million. Our obligation relating to a maximum of $4.0 million of this total expire one year after the July 1, 2008 effective date of these agreements and reset to the same maximum for one additional year thereafter. Our obligation related to the remaining $2.7 million of this total varies based on dealer floor plan debt outstanding, decline over time based on the age of the inventory, and remain in force for periods ranging up to 24 months from the end of the third quarter of 2008. The Company records the fair value of the guarantee liability as of the end of each reporting period. See Note 13 – "Subsequent Event" for additional information regarding repurchase obligations.

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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. BUSINESS SEGMENT INFORMATION

The Company has only one reportable segment, its powerboat manufacturing business; therefore, the majority of the disclosures required by SFAS 131 are not relevant to the Company. In addition, the Company’s results of operations and its financial condition are not significantly reliant upon any single customer or product model.

9. INVENTORIES

Inventories consist of the following:

(in thousands)	September 30, 2008	December 31, 2007
Raw materials and supplies	$ 12,392	$ 14,001
Work in process	5,431	10,830
Finished goods	6,884	8,328
Total inventories	$ 24,707	$ 33,159

10. INCOME TAXES

The Company determines its periodic income tax expense based upon the current period income and the annual estimated tax rate for the Company adjusted for any change to prior year estimates. The estimated tax rate is revised, if necessary, as of the end of each successive interim period during the fiscal year to the Company's current annual estimated tax rate.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. The Company is subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in federal, state and foreign filing jurisdictions where it is required to file income tax returns, as well as all open years in those jurisdictions. As a result of the implementation of FIN 48, the Company did not recognize a material adjustment in the liability for unrecognized income tax benefits. As of the adoption date the Company had gross tax affected unrecognized tax benefits of $659,000, all of which, if recognized, would affect the Company's effective tax rate. As of December 31, 2007 the Company had gross tax affected unrecognized tax benefits of approximately $175,000, all of which, if recognized would affect the Company's effective tax rate. There have been no material changes to these amounts during the nine months ended September 30, 2008.

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 2005 through 2008 tax years remain open to examination.

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'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 September 30, 2008 and 2007.

For the third quarter of 2008, the income tax provision reflects an effective tax rate of 58.3 percent, compared to 40.0 percent for the comparable period in the prior year. The increase in the effective rate was due primarily to recent unanticipated losses on non-qualified plan assets that are not deductible for tax purposes. For the nine months ended September 30, 2008, the income tax provision reflects an effective tax rate of 30.0 percent, compared to 35.6 percent for the comparable period in the prior year. The decrease in the effective rate was due primarily to the impact of tax credits.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. EMPLOYEE BENEFIT PLAN

The Company participates in a multiple employer pension plan. The following represents the net periodic benefit credit and related components for the plan:

(in thousands)	Three months ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Service cost	$ -	$ -	$ -	$ -
Interest cost	70	64	210	192
Expected return on plan assets	(109)	(99)	(327)	(298)
Amortization of net losses	-	21	-	61
Net periodic benefit credit	$ (39)	$ (14)	$ (117)	$ (45)

The Company does not currently expect to make any contributions to this plan in 2008.

12. FAIR VALUE MEASUREMENTS

The Company adopted SFAS 157, "Fair Value Measurements," and FSP 157-2, "Effective Date of FASB Statement No. 157," in the first quarter of 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about items measured at fair value. SFAS 157 does not require any new fair value measurements. It applies to accounting pronouncements that already require or permit fair value measures. As a result, the Company will not be required to recognize any new assets or liabilities at fair value. FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

SFAS 157 establishes a fair value 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:
Level 1 – Quoted market prices in active markets for identical assets or liabilities
Level 2 – Inputs other than level 1 that are either directly or indirectly observable
Level 3 – Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

Securities:
The Company determines the fair value of marketable securities that are available for sale and of investments in the non-qualified plan that are trading using quoted market prices. The adoption of SFAS 157 had no effect on the Company's valuation of these marketable securities or investments.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the balance sheet as of September 30, 2008:

	Fair value Measurements at September 30, 2008 with		
(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	$ 4,585	$ -	$ -
Available for sale securities	$ 52,521	$ -	$ -

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115.” This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, including interim periods within that fiscal year. The Company did not elect the fair value option for any of its existing financial instruments and the Company has not determined whether or not it will elect this option for financial instruments it may acquire in the future.