MARINE PRODUCTS CORP
Form 10-Q
May 04, 2007

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

FORM 10-Q

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

For the quarterly period ended March 31, 2007

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 ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o   Accelerated filer x   Non-accelerated filer o

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

As of April 25, 2007, Marine Products Corporation had 37,995,627 shares of common stock outstanding.

Marine Products Corporation

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2007 AND DECEMBER 31, 2006
(In thousands)
(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 56,235	$ 54,456
Marketable securities	864	652
Accounts receivable, net	4,141	2,980
Inventories	31,366	29,556
Income taxes receivable	1,679	834
Deferred income taxes	3,271	3,244
Prepaid expenses and other current assets	925	1,873
Total current assets	98,481	93,595
Property, plant and equipment, net	16,635	16,641
Goodwill	3,308	3,308
Marketable securities	3,232	3,715
Deferred income taxes	1,361	1,449
Other assets	5,997	5,471
Total assets	$ 129,014	$ 124,179
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 6,887	$ 3,455
Accrued expenses	15,022	13,634
Total current liabilities	21,909	17,089
Pension liabilities	4,941	4,670
Other long-term liabilities	728	1,019
Total liabilities	27,578	22,778
Common stock	3,801	3,791
Capital in excess of par value	11,847	13,453
Retained earnings	86,496	84,875
Accumulated other comprehensive loss	(708)	(718)
Total stockholders' equity	101,436	101,401
Total liabilities and stockholders' equity	$ 129,014	$ 124,179

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

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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(In thousands except per share data)
(Unaudited)

	Three months ended March 31,	
	2007	2006
Net sales	**$ 64,976**	$ 69,957
Cost of goods sold	**51,012**	53,139
Gross profit	**13,964**	16,818
Selling, general and administrative expenses	**8,443**	8,638
Operating income	**5,521**	8,180
Interest income	**726**	446
Income before income taxes	**6,247**	8,626
Income tax provision	**2,330**	2,850
Net income	**$ 3,917**	$ 5,776
Earnings per share		
Basic	**$ 0.10**	$ 0.15
Diluted	**$ 0.10**	$ 0.15
Dividends per share	**$ 0.06**	$ 0.05
Average shares outstanding		
Basic	**37,500**	37,309
Diluted	**38,819**	39,091

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2007	2006
OPERATING ACTIVITES		
Net income	**$ 3,917**	$ 5,776
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**524**	528
Stock-based compensation expense	**373**	381
Excess tax benefit for share-based payments	**(371)**	(235)
Deferred income tax provision (benefit)	**56**	(133)
(Increase) decrease in assets:		
Accounts receivable	**(1,161)**	(2,174)
Inventories	**(1,810)**	(1,740)
Prepaid expenses and other current assets	**948**	(118)
Income taxes receivable	**(474)**	1,774
Other non-current assets	**(526)**	(209)
Increase (decrease) in liabilities:		
Accounts payable	**3,432**	4,905
Other accrued expenses	**1,388**	779
Other long-term liabilities	**(20)**	(438)
Net cash provided by operating activities	**6,276**	9,096
INVESTING ACTIVITIES		
Capital expenditures	**(518)**	(430)
Sale (purchase) of marketable securities, net	**286**	(45)
Net cash used for investing activities	**(232)**	(475)
FINANCING ACTIVITIES		
Payment of dividends	**(2,296)**	(1,864)
Excess tax benefit for share-based payments	**371**	235
Cash paid for common stock purchased and retired	**(2,392)**	(275)
Proceeds received upon exercise of stock options	**52**	31
Net cash used for financing activities	**(4,265)**	(1,873)
Net increase in cash and cash equivalents	**1,779**	6,748
Cash and cash equivalents at beginning of period	**54,456**	37,602
Cash and cash equivalents at end of period	**$ 56,235**	$ 44,350

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 three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The balance sheet at December 31, 2006 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, 2006.

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 March 31			
		2007		2006
Net income (numerator for basic and diluted earnings per share)	$	**3,917**	$	5,776
Shares (denominator):				
Weighted average shares outstanding (denominator for basic earnings per share)		**37,500**		37,309
Dilutive effect of stock options and restricted shares		**1,319**		1,782
Adjusted weighted average shares outstanding (denominator for diluted earnings per share)		**38,819**		39,091
Earnings Per Share:				
Basic	$	**0.10**	$	0.15
Diluted	$	**0.10**	$	0.15

3. RECENT ACCOUNTING PRONOUNCEMENTS

The recent accounting pronouncements previously reported on the Company's Form 10-K for the year ended December 31, 2006 is incorporated herein by reference. As disclosed on the 10-K, the Company adopted the following standards in the first quarter of 2007 with no material impact on the Company's consolidated results of operation and financial condition:

- SFAS 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140"
- SFAS 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140"
- Emerging Issues Task Force ("EITF") Issue 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance"

The Company will adopt the provisions of SFAS 157, "Fair Value Measurements" in the first quarter of 2008 and believes that the adoption will not have a material impact on the Company's consolidated results of operation and financial condition.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS 159, "The Fair Value Option for Financial Assets and Liabilities - Including an Amendment of FASB Statement No. 115," to permit an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however the amendment to SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," applies to all entities with available-for-sale and trading securities. The fair value option permits all entities to choose to measure eligible items at fair value at specified election dates. The fair value option may be applied on an instrument-by-instrument basis, is irrevocable and is to be applied to entire instruments and not portions thereof. The Company will adopt SFAS 159 in fiscal year 2008. The Company is currently evaluating the impact of applying these provisions.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In July 2006, the FASB issued 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. There have been no material changes to these amounts during the quarter ended March 31, 2007.

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 2003 through 2006 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 January 1, 2007 and March 31, 2007.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

(in thousands)	Three months ended March 31 **2007**	2006
Net income as reported	**$ 3,917**	$ 5,776
Change in unrealized gain (loss) on marketable securities, net of taxes and reclassification adjustments	**10**	(2)
Comprehensive income	**$ 3,927**	$ 5,774

5. STOCK-BASED COMPENSATION

Pre-tax cost of stock-based employee compensation was $373,000 ($263,000 after tax effect) for the three months ended March 31, 2007.

Stock Options

Transactions involving Marine Products stock options for the three months ended March 31, 2007 were as follows:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2007	1,951,540	$ 2.82	3.3 years	
Granted	-	-	N/A	
Exercised	(246,943)	$ 1.33	N/A	
Forfeited	-	-	N/A	
Expired	-	-	N/A	
Outstanding at March 31, 2007	1,704,597	$ 3.03	3.9 years	$ 11,148,071
Exercisable at March 31, 2007	1,480,349	$ 2.84	3.7 years	$ 9,962,749

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The total intrinsic value of share options exercised was approximately $2,083,000 during the three months ended March 31, 2007 and approximately $2,300,000 during the three months ended March 31, 2006. There were no tax benefits associated with the exercise of stock options during the three months ended March 31, 2007 and 2006, since all of the options exercised were incentive stock options which do not generate tax deductions for the Company.

Restricted Stock

The following is a summary of the changes in non-vested restricted shares for the three months ended March 31, 2007:

	Shares		**Weighted Average Grant-Date Fair Value**
Non-vested shares at January 1, 2007	590,954	$	9.79
Granted	136,000	$	9.54
Vested	(165,454)	$	4.72
Forfeited	(1,500)	$	9.54
Non-vested shares at March 31, 2007	560,000	$	11.23

The total fair value of shares vested was approximately $1,829,000 during the three months ended March 31, 2007 and $679,000 during the three months ended March 31, 2006. The tax benefit for compensation tax deductions in excess of compensation expense aggregating $371,000 was credited to capital in excess of par value during the three months ended March 31, 2007 and $235,000 during the three months ended March 31, 2006. This excess tax deduction is classified as a financing cash flow during the three months ended March 31, 2007 in accordance with SFAS123R.

Other Information

As of March 31, 2007, total unrecognized compensation cost related to non-vested restricted shares was approximately $5,284,000. This cost is expected to be recognized over a weighted-average period of 4.2 years. As of March 31, 2007, total unrecognized compensation cost related to non-vested stock options was approximately $389,000 and is expected to be recognized over a weighted average period of approximately one year.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. 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 three months ended March 31, 2007 and 2006 is as follows:

(in thousands)		**2007**		2006
Balances at beginning of year	**$**	**5,337**	$	4,272
Less: Payments made during the period		**(1,724)**		(2,068)
Add: Warranty provision for the period		**1,243**		897
Changes to warranty provision for prior years		**120**		352
Balances at March 31	**$**	**4,976**	$	3,453

Repurchase Obligations

The Company is a party to certain agreements with third party lenders that provide financing to the Company's network of dealers. 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 unpaid debt obligation on those boats, up to certain contractually determined dollar limits. As of March 31, 2007, the maximum contractual obligation and the amounts outstanding under these agreements, which expire in 2007 and 2008, totaled approximately $3.5 million. The Company records the estimated fair value of the guarantee; at March 31, 2007, this amount was immaterial.

7. 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 on sales to international customers.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. INVENTORIES

Inventories consist of the following:

(in thousands)	**March 31, 2007**	December 31, 2006
Raw materials and supplies	**$ 16,852**	$ 13,319
Work in process	**7,015**	9,383
Finished goods	**7,499**	6,854
Total inventories	**$ 31,366**	$ 29,556

9. 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.

10. EMPLOYEE BENEFIT PLAN

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

(in thousands)	Three months ended March 31	
	2007	2006
Service cost	**$ -**	$ -
Interest cost	**64**	61
Expected return on plan assets	**(96)**	(85)
Amortization of:		
Actuarial net (gains) and losses	**20**	27
Net periodic benefit cost	**$ (12)**	$ 3

During the quarter ended March 31, 2007, the Company contributed $250,000 to the multiple employer pension plan to achieve its funding objectives. The Company does not currently expect to make any additional contributions to this plan in 2007.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Marine Products Corporation, 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 customers. These dealers are located throughout the continental United States and in several international markets. A majority of these dealers finance their inventory through third-party floorplan lenders, who pay Marine Products generally within seven to 10 days after delivery of the products to the dealers.

The discussion on business and financial strategies of the Company set forth under the heading “Overview” in the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2006 is incorporated herein by reference. There have been no significant changes in the strategies since year-end.

In implementing these strategies and attempting to optimize our financial returns, management closely monitors dealer orders and inventories, the production mix of its various models, and indications of near term demand such as consumer confidence, interest rates, fuel costs, 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 market share, unit sales of our products, average selling price per unit, 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.

We reduced our production levels during the fourth quarter of 2006 in response to our concerns about dealer and consumer demand for products in our industry, which resulted from higher fuel prices and declining consumer sentiment regarding the attractiveness of recreational boating. In the first quarter of 2007, our production levels were slightly lower than the levels during the first quarter of 2006. The impact of this decrease was compounded by a decrease in average selling prices due to the change in model mix to more of the smaller models. Gross profit margin as a percentage of net sales decreased approximately 2.5 basis points compared to the first quarter of 2006. This decline was primarily due to higher raw material costs, specifically petroleum based products such as resin, vinyl and foam, and higher component costs such as engines coupled with manufacturing inefficiencies at lower production levels. At the end of the quarter, our unit backlog was lower than at this time last year due to declining consumer demand.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

OUTLOOK

The discussion on the outlook for 2007 is incorporated herein by reference from the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006.

Marine Products experienced a weaker than expected winter boat show season, and the demand for many of our larger 2007 models has been weaker than in the past. As we operate in the height of the retail selling season and prepare to introduce our 2008 models, we will continue to monitor dealer inventories and backlog, as well as any signs of declining consumer confidence due to high fuel prices or other factors. We continue to attempt to manage the rising cost of raw materials, which have negatively impacted our margins, through effective management of our purchasing processes.

RESULTS OF OPERATIONS

Key operating and financial statistics for the three months ended March 31, 2007 and 2006 follow:

($ in thousands)	**Three months ended March 31**	
	2007	**2006**
Total number of boats sold	1,536	1,654
Average gross selling price per boat	$ 41.0	$ 41.8
Net sales	$ 64,976	$ 69,957
Percentage of cost of goods sold to net sales	78.5%	76.0%
Gross profit margin percent	21.5%	24.0%
Percentage of selling, general and administrative expense to net sales	13.0%	12.3