

MARINE PRODUCTS CORP
Form 10-Q
August 07, 2006

Table of Contents

**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 June 30, 2006

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)

2170 Piedmont Road, NE, Atlanta, Georgia 30324
(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):

Larger accelerated filer [] Accelerated filer [X] Non-accelerated filer []

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 July 25, 2006, Marine Products Corporation had 38,024,112 shares of common stock outstanding.

Marine Products Corporation

Table of Contents

<u>Part I. Financial Information</u>		Page No.
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u> <u>Consolidated Balance Sheets - As of June 30, 2006 and December 31, 2005</u>	3
	<u>Consolidated Statements of Income - for the three and six months ended June 30, 2006 and 2005</u>	4
	<u>Consolidated Statements of Cash Flows - for the six months ended June 30, 2006 and 2005</u>	5
	<u>Notes to Consolidated Financial Statements</u>	6-15
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16-23
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4.</u>	<u>Controls and Procedures</u>	24
<u>Part II. Other Information</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	25
<u>Item 1A.</u>	<u>Risk Factors</u>	25
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>	26
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	26
<u>Item 5.</u>	<u>Other Information</u>	26
<u>Item 6.</u>	<u>Exhibits</u>	27
<u>Signatures</u>		28

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2006 AND DECEMBER 31, 2005

(In thousands)

(Unaudited)

	June 30, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 44,165	\$ 37,602
Marketable securities	379	1,323
Accounts receivable, net	7,819	3,662
Inventories	33,677	26,856
Income taxes receivable	1,157	2,528
Deferred income taxes	2,954	3,079
Prepaid expenses and other current assets	1,636	1,343
Total current assets	91,787	76,393
Property, plant and equipment, net	17,154	17,252
Goodwill	3,308	3,308
Marketable securities	5,850	5,893
Deferred income taxes	1,051	1,126
Other assets	4,964	4,833
Total assets	\$ 124,114	\$ 108,805
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 9,600	\$ 3,461
Accrued expenses	12,880	11,591
Total current liabilities	22,480	15,052
Pension liabilities	4,485	4,923
Other long-term liabilities	492	1,142
Total liabilities	27,457	21,117
Common stock	3,805	3,770
Capital in excess of par value	13,467	16,364
Retained earnings	80,489	72,192
Deferred compensation	-	(3,540)
Accumulated other comprehensive loss	(1,104)	(1,098)
Total stockholders' equity	96,657	87,688
Total liabilities and stockholders' equity	\$ 124,114	\$ 108,805

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

3

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2006 AND 2005
(In thousands except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30	
	2006	2005	2006	2005
Net sales	\$ 71,739	\$ 77,566	\$ 141,696	\$ 150,152
Cost of goods sold	55,603	57,691	108,742	111,329
Gross profit	16,136	19,875	32,954	38,823
Selling, general and administrative expenses	8,437	8,989	17,075	17,836
Operating income	7,699	10,886	15,879	20,987
Interest income	588	370	1,034	661
Income before income taxes	8,287	11,256	16,913	21,648
Income tax provision	1,998	3,300	4,848	6,875
Net income	\$ 6,289	\$ 7,956	\$ 12,065	\$ 14,773
Earnings per share				
Basic	\$ 0.17	\$ 0.21	\$ 0.32	\$ 0.38
Diluted	\$ 0.16	\$ 0.20	\$ 0.31	\$ 0.36
Dividends per share	\$ 0.050	\$ 0.040	\$ 0.100	\$ 0.080
Average shares outstanding				
Basic	37,414	38,520	37,361	38,561
Diluted	38,976	40,631	39,049	40,797

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2006	2005
OPERATING ACTIVITIES		
Net income	\$ 12,065	\$ 14,773
Noncash charges (credits) to earnings:		
Depreciation and amortization	1,842	1,509
Deferred income tax provision (benefit)	204	(1,024)
(Gain)/loss on sale of equipment and property	(2)	0
(Increase) decrease in assets:		
Accounts receivable	(4,157)	(4,369)
Inventories	(6,821)	(5,872)
Prepaid expenses and other current assets	(293)	(426)
Income taxes receivable	1,371	575
Other non-current assets	(131)	(1,723)
Increase (decrease) in liabilities:		
Accounts payable	6,773	1,764
Other accrued expenses	655	4,127
Other long-term liabilities	(1,088)	1,062
Net cash provided by operating activities	10,418	10,396
INVESTING ACTIVITIES		
Capital expenditures	(986)	(489)
Proceeds from sale of assets	25	0
Net sales (purchases) of marketable securities	977	(5,142)
Net cash provided by (used for) investing activities	16	(5,631)
FINANCING ACTIVITIES		
Payment of dividends	(3,767)	(3,082)
Excess tax benefit for share-based payments	295	0
Cash paid for common stock purchased and retired	(559)	(7,295)
Proceeds received upon exercise of stock options	160	300
Net cash used for financing activities	(3,871)	(10,077)
Net increase (decrease) in cash and cash equivalents	6,563	(5,312)
Cash and cash equivalents at beginning of period	37,602	46,615
Cash and cash equivalents at end of period	\$ 44,165	\$ 41,303

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 the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (all of which consisted of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 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, 2005.

Certain prior year balances have been reclassified to conform to the current year presentation.

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

<i>(in thousands except per share data amounts)</i>	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Net income (numerator for basic and diluted earnings per share)	\$ 6,289	\$ 7,956	\$ 12,065	\$ 14,773
Shares (denominator):				
Weighted average shares outstanding (denominator for basic earnings per share)	37,414	38,520	37,361	38,561
Dilutive effect of stock options and restricted shares	1,562	2,111	1,688	2,236
Adjusted weighted average shares outstanding (denominator for diluted earnings per share)	38,976	40,631	39,049	40,797
Earnings Per Share:				
Basic	\$ 0.17	\$ 0.21	\$ 0.32	\$ 0.38
Diluted	\$ 0.16	\$ 0.20	\$ 0.31	\$ 0.36

3. RECENT ACCOUNTING PRONOUNCEMENTS

The recent accounting pronouncements previously reported on the Company's Form 10-K for the year ended December 31, 2005 is incorporated herein by reference. As disclosed on the 10-K, the Company adopted the following standards in the first quarter of 2006 with no material impact on the Company's consolidated results of operation and financial condition:

SFAS 151, "Inventory Costs - An amendment of ARB No. 43, Chapter 4," and
SFAS 154, "Accounting changes and error correction"

In addition, the Company adopted SFAS 123R, "Share-Based Payment" in the first quarter of 2006. See Note 5, "Stock-based compensation" for additional information.

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140," to permit fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation in accordance with the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." The Company will adopt SFAS 155 in fiscal year 2007. The adoption of this Statement is not expected to have a material effect on the Company's consolidated results of operation and financial condition.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In March 2006, the FASB issued SFAS 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140," that provides guidance on accounting for separately recognized servicing assets and servicing liabilities. In accordance with the provisions of SFAS 156, separately recognized servicing assets and servicing liabilities must be initially measured at fair value, if practicable. Subsequent to initial recognition, the Company may use either the amortization method or the fair value measurement method to account for servicing assets and servicing liabilities within the scope of this Statement. The Company will adopt SFAS 156 in fiscal year 2007. The adoption of this Statement is not expected to have a material effect on the Company's consolidated results of operation and financial condition.

In June 2006, the FASB issued Financial Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109." FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of applying the various provisions of FIN 48.

4. **COMPREHENSIVE INCOME**

The components of comprehensive income are as follows:

<i>(in thousands)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net income as reported	\$ 6,289	\$ 7,956	\$ 12,065	\$ 14,773
Change in unrealized gain (loss) on marketable securities, net of taxes and reclassification adjustments	(4)	26	(6)	(9)
Comprehensive income	\$ 6,285	\$ 7,982	\$ 12,059	\$ 14,764

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. STOCK-BASED COMPENSATION

The Company has granted various stock awards to employees under two stock incentive plans (the "Plans") that were approved by shareholders in 2001 and 2004. The Company reserved a total of 5,250,000 shares of common stock under both the Plans each of which expires 10 years from approval. The Plans provide for the issuance of various forms of stock incentives, including, among others, incentive and non-qualified stock options and restricted stock, which are discussed in detail below. As of June 30, 2006, shares totaling 2,080,128 were available for grants.

On January 1, 2006, the Company adopted the provisions of SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which revises SFAS 123, "Accounting for Stock-Based Compensation," ("SFAS 123") and supersedes Accounting Principles Board ("APB") APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Statement 123R also requires that cash flows related to share-based payment awards to employees that result in tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows.

Prior to January 1, 2006, the Company provided the disclosures required by SFAS 123, as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosures," and accounted for all of its stock-based compensation under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" using the intrinsic value method prescribed therein. Accordingly, the Company did not recognize compensation expense for options granted since the exercise price was the same as the market price of the shares on the date of grant. Compensation cost on the restricted stock was recorded as deferred compensation in stockholders' equity based on the fair market value of the shares on the date of issuance and amortized ratably over the respective vesting period. Forfeitures related to restricted stock were previously accounted for as they occurred.

As permitted by SFAS 123R, the Company has elected to use the modified prospective transition method and therefore financial results for prior periods have not been restated. Under this transition method, the Company will recognize compensation expense for the unvested portion of stock options outstanding over the remainder of the service period. The compensation cost recorded for these stock options is based on their fair value at grant date less the cost of estimated forfeitures as calculated for pro forma disclosures required by SFAS 123.

The pre-tax stock-based employee compensation expense was approximately \$400,000 (\$292,000 after tax effect) for the three months ended June 30, 2006 and approximately \$781,000 (\$576,000 after tax effect) for the six months ended June 30, 2006. As a result of the adoption of SFAS 123R, the financial results were lower than under the previous accounting method for share-based compensation by the following amounts:

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<i>(In thousands)</i>	Three months ended June 30, 2006	Six months ended June 30, 2006
Earnings before income taxes	\$ 133	\$ 277
Net earnings	\$ 123	\$ 257

The impact on basic and diluted earnings per share due to the incremental expense disclosed above for the three and six months ended June 30, 2006 were as follows:

	Three months ended June 30, 2006	Six months ended June 30, 2006
Basic Earnings Per Share	\$ 0.00	(\$0.01)
Diluted Earnings Per Share	\$ 0.00	(\$0.01)

The following table illustrates the effect on net income and net income per common share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation for the three and six months ended June 30, 2005:

<i>(In thousands except per share data)</i>	Three months ended June 30, 2005	Six months ended June 30, 2005
Net income - as reported	\$ 7,956	\$ 14,773
Add: Stock-based employee compensation cost, previously included in reported net income, net of related tax effect	125	228
Deduct: Stock-based employee compensation cost, computed using the Black-Scholes option pricing model, for all awards, net of related tax effect	(215)	(408)
Pro forma net income	\$ 7,866	\$ 14,593
Earnings per share, as reported		
Basic	\$ 0.21	\$ 0.38
Diluted	\$ 0.20	\$ 0.36
Pro forma earnings per share		
Basic	\$ 0.20	\$ 0.38
Diluted	\$ 0.19	\$ 0.36

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Stock Options*

Stock options are granted at an exercise price equal to the fair market value of the Company's common stock at the date of grant except for grants of incentive stock options to owners of greater than 10 percent of the Company's voting securities which must be made at 110 percent of the fair market value of the Company's common stock. Options generally vest ratably over a period of five years and expire in 10 years, except for grants of incentive stock options to owners of greater than 10 percent of the Company's voting securities, which expire in five years.

The Company has not granted stock options since 2004. The fair value of outstanding options was estimated as of the date of grant using the Black-Scholes option pricing model as prescribed by SFAS 123.

Transactions involving Marine Products stock options for the six months ended June 30, 2006 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2006	2,272,313	\$ 2.67	4.7 years	
Granted	-	-	-	
Exercised	(296,798)	\$ 1.54	N/A	
Forfeited	(10,500)	\$ 6.85	N/A	
Expired	-	-	-	
Outstanding at June 30, 2006	1,965,015	\$ 2.82	4.4 years	\$ 13,578,254
Exercisable at June 30, 2006	1,447,967	\$ 2.37	3.8 years	\$ 10,657,037

The total intrinsic value of share options exercised was approximately \$2,700,000 during the six months ended June 30, 2006 and approximately \$3,137,000 during the six months ended June 30, 2005. There were no tax benefits associated with the exercise of stock options during the six months ended June 30, 2006 and 2005, since all of the options exercised were incentive stock options which do not generate tax deductions for the Company.