

MARINE PRODUCTS CORP
Form 10-Q
November 03, 2014

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, 2014

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) 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

As of October 24, 2014, Marine Products Corporation had 38,165,676 shares of common stock outstanding.

Marine Products Corporation

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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013

(In thousands)

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 5,296	\$ 5,114
Marketable securities	12,024	5,639
Accounts receivable, net	3,515	2,021
Inventories	24,573	28,859
Income taxes receivable	332	692
Deferred income taxes	1,374	1,096
Prepaid expenses and other current assets	1,644	1,839
Total current assets	48,758	45,260
Property, plant and equipment, less accumulated depreciation of \$25,067 in 2014 and \$24,567 in 2013	11,052	11,265
Goodwill	3,308	3,308
Other intangibles, net	465	465
Marketable securities	32,492	30,949
Deferred income taxes	3,347	3,177
Other assets	8,495	8,129
Total assets	\$ 107,917	\$ 102,553
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 5,939	\$ 5,569
Accrued expenses and other liabilities	10,369	8,993
Total current liabilities	16,308	14,562
Pension liabilities	6,518	6,420
Other long-term liabilities	83	88
Total liabilities	22,909	21,070
Common stock	3,817	3,810
Capital in excess of par value	3,638	3,583
Retained earnings	78,381	74,943
Accumulated other comprehensive loss	(828)	(853)
Total stockholders' equity	85,008	81,483
Total liabilities and stockholders' equity	\$ 107,917	\$ 102,553

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
 (In thousands except per share data)
 (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net sales	\$ 37,932	\$ 41,989	\$ 133,609	\$ 128,507
Cost of goods sold	30,965	34,258	108,372	106,349
Gross profit	6,967	7,731	25,237	22,158
Selling, general and administrative expenses	4,391	4,935	15,768	15,408
Operating income	2,576	2,796	9,469	6,750
Interest income	116	83	359	410
Income before income taxes	2,692	2,879	9,828	7,160
Income tax provision	810	877	2,955	1,774
Net income	\$ 1,882	\$ 2,002	\$ 6,873	\$ 5,386
Earnings per share				
Basic	\$ 0.05	\$ 0.05	\$ 0.19	\$ 0.15
Diluted	\$ 0.05	\$ 0.05	\$ 0.18	\$ 0.15
Dividends paid per share	\$ 0.03	\$ 0.03	\$ 0.09	\$ 0.09
Weighted average shares outstanding				
Basic	36,904	36,827	36,950	36,779
Diluted	37,190	37,180	37,236	37,058

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
 (In thousands)
 (Unaudited)

	Three months ended September		Nine months ended September	
	2014	30, 2013	2014	30, 2013
Net income	\$ 1,882	\$ 2,002	\$ 6,873	\$ 5,386
Other comprehensive income (loss), net of taxes:				
Pension adjustment	5	12	17	33
Unrealized (loss) gain on securities, net of reclassification adjustments	(32)	77	8	(103)
Comprehensive income	\$ 1,855	\$ 2,091	\$ 6,898	\$ 5,316

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

(In thousands)

(Unaudited)

	Common Stock		Capital in	Retained	Accumulated	
	Shares	Amount	Excess of	Earnings	Other	Total
			Par Value		Income (Loss)	
Balance, December 31, 2013	38,095	\$3,810	\$3,583	\$74,943	\$ (853)	\$81,483
Stock issued for stock incentive plans, net	273	27	1,345	—	—	1,372
Stock purchased and retired	(202)	(20)	(1,601)	—	—	(1,621)
Net income	—	—	—	6,873	—	6,873
Pension adjustment, net of taxes	—	—	—	—	17	17
Unrealized gain on securities, net of taxes and reclassification adjustments	—	—	—	—	8	8
Dividends declared	—	—	—	(3,435)	—	(3,435)
Excess tax benefits for share-based payments	—	—	311	—	—	311
Balance, September 30, 2014	38,166	\$3,817	\$3,638	\$78,381	\$ (828)	\$85,008

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)
(Unaudited)

	Nine months ended September 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 6,873	\$ 5,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	536	545
Gain on sale of equipment and property	(17)	(12)
Stock-based compensation expense	1,372	1,273
Excess tax benefits for share-based payments	(311)	(108)
Deferred income tax benefit	(462)	(271)
(Increase) decrease in assets:		
Accounts receivable	(1,494)	(2,178)
Inventories	4,286	572
Prepaid expenses and other current assets	195	40
Income taxes receivable	360	394
Other non-current assets	(339)	(271)
Increase (decrease) in liabilities:		
Accounts payable	369	3,040
Income taxes payable	426	489
Accrued expenses and other liabilities	1,261	437
Other long-term liabilities	93	237
Net cash provided by operating activities	13,148	9,573
INVESTING ACTIVITIES		
Capital expenditures	(345)	(244)
Proceeds from sale of assets	39	12
Purchases of marketable securities	(15,324)	(12,355)
Sales of marketable securities	4,719	11,111
Maturities of marketable securities	2,690	-
Net cash used for investing activities	(8,221)	(1,476)
FINANCING ACTIVITIES		
Payment of dividends	(3,435)	(3,423)
Excess tax benefits for share-based payments	311	108
Cash paid for common stock purchased and retired	(1,621)	(576)
Net cash used for financing activities	(4,745)	(3,891)
Net increase in cash and cash equivalents	182	4,206
Cash and cash equivalents at beginning of period	5,114	1,648

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Cash and cash equivalents at end of period	\$ 5,296	\$ 5,854
Supplemental information:		
Income tax payments, net	\$ 2,632	\$ 1,165

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

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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 accounting principles generally accepted in the United States of America 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 and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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, 2013.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements:

Accounting Standards Update (ASU) 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 of thereof, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward. 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 Company adopted these provisions in the first quarter of 2014 and adoption did not have a material impact on the Company's consolidated financial statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements Not Yet Adopted:

Accounting Standards Update No. 2014-15, Presentation of Financial Statements —Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The provisions in this ASU are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Currently, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. This going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. This ASU provides guidance regarding management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern and the related footnote disclosures. The amendments are effective for the year ending December 31, 2016, and for interim periods beginning the first quarter of 2017, with early application permitted. The Company plans to adopt the provisions for the year ending December 31, 2016 and will provide such disclosures as required if there are conditions and events that raise substantial doubt about its ability to continue as a going concern. The Company currently does not expect the adoption to have a material impact on its consolidated financial statements.

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five step process – (i) identifying the contract(s) with a customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations in the contract and (v) recognizing revenue when (or as) the entity satisfies a performance obligation. The Company plans to adopt these provisions in the first quarter of 2017 and is currently evaluating the impact of these provisions on its financial statements. Early adoption is not permitted.

Accounting Standards Update 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in the ASU require that only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective in the first quarter of 2015 with early adoption permitted. The Company plans to adopt these provisions in the first quarter of 2015 and does not expect the adoption to have a material impact on the Company's consolidated financial statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. 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. 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.

A reconciliation of weighted average shares outstanding is as follows:

(In thousands except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income available for stockholders	\$ 1,882	\$ 2,002	\$ 6,873	\$ 5,386
Less: Dividends paid	(1,144)	(1,140)	(3,435)	(3,423)
Undistributed earnings	\$ 738	\$ 862	\$ 3,438	\$ 1,963
Basic shares outstanding:				
Common stock	35,642	35,556	35,710	35,516
Restricted shares of common stock	1,262	1,271	1,240	1,263
	36,904	36,827	36,950	36,779
Diluted shares outstanding:				
Common stock	35,642	35,556	35,710	35,516
Dilutive effect of stock based awards	286	353	286	279
	35,928	35,909	35,996	35,795
Restricted shares of common stock	1,262	1,271	1,240	1,263
	37,190	37,180	37,236	37,058

Inclusion of all participating securities in the computation of Earnings Per Share (EPS) under the two-class method had no impact on the Basic EPS amounts reported for the three months ended September 30, 2014 and 2013, and a reduction of \$0.01 for the nine months ended September 30, 2014 and 2013.

The effect of the Company's stock options as shown below have been excluded from the computation of diluted earnings per share for the following periods, as their effect would have been anti-dilutive:

Three months ended September	Nine months ended September 30,
---------------------------------	------------------------------------

	30,			
(in thousands)	2014	2013	2014	2013
Stock options	-	42	-	42

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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. STOCK-BASED COMPENSATION

The Company reserved 3,000,000 shares of common stock under the 2014 Stock Incentive Plan with a term of ten years expiring in April 2024. All future equity compensation awards by the Company will be issued under the 2014 plan. This plan provides for the issuance of various forms of stock incentives, including among others, incentive and non-qualified stock options and restricted shares. As of September 30, 2014, there were approximately 2,940,000 shares available for grant.

Stock-based compensation for the three months and nine months ended September 30, 2014 and 2013 were as follows:

(in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Pre – tax cost	\$ 468	\$ 429	\$ 1,372	\$ 1,273
After tax cost	\$ 303	\$ 276	\$ 885	\$ 821

Stock Options

Transactions involving Marine Products stock options for the nine months ended September 30, 2014 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in years	Aggregate Intrinsic Value
Outstanding at December 31, 2013	41,600	\$ 12.47	0.33	
Granted	-	-	N/A	
Exercised	-	-	N/A	
Forfeited	-	-	N/A	
Expired	(41,600)	12.47	N/A	
Outstanding at September 30, 2014	0	N/A	N/A	N/A

There were no stock options exercised during the nine months ended September 30, 2014 and 2013.

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, 2014:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at December 31, 2013	1,268,200	\$ 6.01
Granted	273,000	\$ 7.90
Vested	(276,100)	\$ 5.76
Forfeited	(3,550)	\$ 6.09
Non-vested shares at September 30, 2014	1,261,550	\$ 6.47

The total fair value of shares vested was approximately \$2,356,000 during the nine months ended September 30, 2014 and \$1,457,000 during the nine months ended September 30, 2013. Tax benefits for compensation tax deductions in excess of compensation expense totaling approximately \$311,000 for the nine months ended September 30, 2014 and \$108,000 for the nine months ended September 30, 2013 were credited to capital in excess of par value and classified as financing cash flows.

Other Information

As of September 30, 2014, total unrecognized compensation cost related to non-vested restricted shares was approximately \$7,021,000. This cost is expected to be recognized over a weighted-average period of 3.6 years.

5. MARKETABLE SECURITIES

Marine Products' marketable securities are 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.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The net realized gains and the reclassification of net realized gains from other comprehensive income are as follows:

(in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net realized gain (loss)	\$ 3	\$ (24)	\$ 5	\$ 56
Reclassification of net realized gains from other comprehensive income	\$ 3	\$ (24)	\$ 5	\$ 56

Gross unrealized gains (losses) on marketable securities are as follows:

(in thousands)	September 30, 2014		December 31, 2013	
	Gross unrealized		Gross unrealized	
	Gains	(Losses)	Gains	(Losses)
Municipal Obligations	\$ 235	\$ (3)	\$ 223	\$ (16)
Corporate Obligations	6	(12)	6	-
	\$ 241	\$ (15)	\$ 229	