

MARINE PRODUCTS CORP
Form 10-Q
October 30, 2015

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, 2015

Commission File No. 1-16263

MARINE PRODUCTS CORPORATION

(exact name of registrant as specified in its charter)

Delaware
(STATE OR OTHER JURISDICTION OF INCORPORATION OR
ORGANIZATION)

58-2572419
(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**

Edgar Filing: MARINE PRODUCTS CORP - Form 10-Q

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 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 x
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 x

As of October 23, 2015, Marine Products Corporation had 38,136,728 shares of common stock outstanding.

Marine Products Corporation

Table of Contents

	Page No.
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets – As of September 30, 2015 and December 31, 2014	3
Consolidated Statements of Operations – for the three and nine months ended September 30, 2015 and 2014	4
Consolidated Statements of Comprehensive Income – for the three and nine months ended September 30, 2015 and 2014	5
Consolidated Statement of Stockholders’ Equity – for the nine months ended September 30, 2015	6
Consolidated Statements of Cash Flows – for the nine months ended September 30, 2015 and 2014	7
Notes to Consolidated Financial Statements	8-22
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	23-32
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	33
Part II. Other Information	
Item 1. Legal Proceedings	34
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3. Defaults upon Senior Securities	35
Item 4. Mine Safety Disclosures	35
Item 5. Other Information	35

Item 6. Exhibits	36
Signatures	37

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014

(In thousands)

(Unaudited)

	September 30, 2015	December 31, 2014 (Note 1)
ASSETS		
Cash and cash equivalents	\$9,111	\$4,072
Marketable securities	9,007	3,653
Accounts receivable, net	3,961	2,369
Inventories	32,306	28,819
Income taxes receivable	713	123
Deferred income taxes	2,372	2,480
Prepaid expenses and other current assets	1,826	1,706
Total current assets	59,296	43,222
Property, plant and equipment, net accumulated depreciation of \$24,841 in 2015 and \$24,180 in 2014	12,809	9,890
Goodwill	3,308	3,308
Other intangibles, net	465	465
Marketable securities	26,106	33,831
Deferred income taxes	2,831	3,214
Other assets	9,798	9,893
Total assets	\$114,613	\$103,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$9,083	\$3,577
Accrued expenses and other liabilities	9,986	9,631
Total current liabilities	19,069	13,208

Edgar Filing: MARINE PRODUCTS CORP - Form 10-Q

Pension liabilities	6,465	7,039
Other long-term liabilities	77	82
Total liabilities	25,611	20,329
Common stock	3,814	3,813
Capital in excess of par value	3,479	3,895
Retained earnings	83,628	77,755
Accumulated other comprehensive loss	(1,919)	(1,969)
Total stockholders' equity	89,002	83,494
Total liabilities and stockholders' equity	\$ 114,613	\$ 103,823

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS**

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(In thousands except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net sales	\$ 47,038	\$ 37,932	\$ 157,180	\$ 133,609
Cost of goods sold	37,164	30,965	124,497	108,372
Gross profit	9,874	6,967	32,683	25,237
Selling, general and administrative expenses	5,420	4,391	17,552	15,768
Operating income	4,454	2,576	15,131	9,469
Interest income	103	116	325	359
Income before income taxes	4,557	2,692	15,456	9,828
Income tax provision	1,454	810	4,995	2,955
Net income	\$ 3,103	\$ 1,882	\$ 10,461	\$ 6,873
Earnings per share				
Basic	\$ 0.08	\$ 0.05	\$ 0.28	\$ 0.19
Diluted	\$ 0.08	\$ 0.05	\$ 0.28	\$ 0.18
Dividends paid per share	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.09
Weighted Average shares outstanding				
Basic	36,889	36,904	36,982	36,950
Diluted	36,980	37,190	37,163	37,236

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 AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	\$ 3,103	\$ 1,882	\$ 10,461	\$ 6,873
Other comprehensive income (loss), net of taxes:				
Pension adjustment	12	5	36	17
Unrealized gain (loss) on securities, net of reclassification adjustments	44	(32)	14	8
Comprehensive income	\$ 3,159	\$ 1,855	\$ 10,511	\$ 6,898

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, 2015

(In thousands)

(Unaudited)

	Common Stock		Capital in	Retained	Accumulated	
	Shares	Amount	Excess of Par Value	Earnings	Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	38,131	\$ 3,813	\$ 3,895	\$ 77,755	\$ (1,969)	\$ 83,494
Stock issued for stock incentive plans, net	317	32	1,440	—	—	1,472
Stock purchased and retired	(311)	(31)	(2,077)	—	—	(2,108)
Net income	—	—	—	10,461	—	10,461
Pension adjustment, net of taxes	—	—	—	—	36	36
Unrealized gain on securities, net of taxes and reclassification adjustment	—	—	—	—	14	14
Dividends declared	—	—	—	(4,588)	—	(4,588)
Excess tax benefits for share-based payments	—	—	221	—	—	221
Balance, September 30, 2015	38,137	\$ 3,814	\$ 3,479	\$ 83,628	\$ (1,919)	\$ 89,002

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, 2015 AND 2014

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income	\$ 10,461	\$ 6,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	690	536
Gain on sale of equipment and property	(12)	(17)
Stock-based compensation expense	1,481	1,372
Excess tax benefits for share-based payments	(221)	(311)
Deferred income tax provision (benefit)	453	(462)
(Increase) decrease in assets:		
Accounts receivable	(1,592)	(1,494)
Inventories	(3,487)	4,286
Prepaid expenses and other current assets	(120)	195
Income taxes receivable	(590)	360
Other non-current assets	95	(339)
Increase (decrease) in liabilities:		
Accounts payable	5,506	369
Income taxes payable	374	426
Accrued expenses and other liabilities	202	1,261
Other long-term liabilities	(522)	93
Net cash provided by operating activities	12,718	13,148
INVESTING ACTIVITIES		
Capital expenditures	(3,604)	(345)
Proceeds from sale of assets	7	39
Purchases of marketable securities	(9,896)	(15,324)
Sales of marketable securities	11,389	4,719
Maturities of marketable securities	900	2,690
Net cash used for investing activities	(1,204)	(8,221)
FINANCING ACTIVITIES		

Edgar Filing: MARINE PRODUCTS CORP - Form 10-Q

Payment of dividends	(4,588)	(3,435)
Excess tax benefits for share-based payments	221	311
Cash paid for common stock purchased and retired	(2,108)	(1,621)
Net cash used for financing activities	(6,475)	(4,745)
Net increase in cash and cash equivalents	5,039	182
Cash and cash equivalents at beginning of period	4,072	5,114
Cash and cash equivalents at end of period	\$9,111	\$5,296
Supplemental information:		
Income tax payments, net	\$4,757	\$2,632

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The balance sheet at December 31, 2014 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, 2014.

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 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 Company adopted these provisions in the first quarter of 2015 and the adoption did not have a material impact on the Company's consolidated financial statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Recently Issued Accounting Pronouncements Not Yet Adopted:

Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.* To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this ASU eliminate the requirement to retrospectively account for those adjustments. Instead, an acquirer is required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. All of the changes are to be recorded in the reporting period and calculated as if the accounting had been completed at the acquisition date and either disclosed on the face of the income statement or in the notes by each category. These amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments are to be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company plans to adopt the provisions in the first quarter of 2016 for all business combinations completed thereafter and currently does not expect the adoption to have a material impact on its consolidated financial statements.

Accounting Standards Update No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory.* Current guidance requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments in this ASU simplifies the measurement process and allows inventory to be measured at lower of cost or net realizable value and eliminates the market requirement. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments do not apply to inventory that is measured using last-in, first-out or the retail inventory method. The amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments are to be applied prospectively with earlier application permitted. The Company plans to adopt the provisions in the first quarter of 2017 and currently does not expect the adoption to have a material impact on its consolidated financial statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation

Analysis. The amendments in this ASU are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU reduces the number of consolidation models from four to two, thereby simplifying the criteria for consolidation by:

i. Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met.

ii. Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE) and changing consolidation conclusions in several industries that typically make use of limited partnerships or VIEs.

The ASU will be effective for periods beginning after December 15, 2015, with early adoption permitted. The Company plans to adopt these provisions in the first quarter of 2016 and currently does not expect the adoption to have a material impact on its consolidated financial statements.

Accounting Standards Update No. 2015-01, Income Statement —Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items This ASU eliminates from U.S. GAAP the concept of extraordinary items. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company plans to adopt these provisions in the first quarter of 2016 and currently does not expect the adoption to have a material impact on its consolidated financial statements.

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 these provisions in the first quarter of 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.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 2018 in accordance with ASU 2015-14 that deferred the effective date of ASU 2014-09 for all entities by one year. The Company is currently evaluating the impact of these provisions on its financial statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**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. 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

	Three months ended		Nine months ended	
	September 30,		September 30,	
(In thousands except per share data)	2015	2014	2015	2014
Net income available for stockholders	\$3,103	\$1,882	\$10,461	\$6,873
Less: Dividends paid	(1,525)	(1,144)	(4,588)	(3,435)
Undistributed earnings	\$1,578	\$738	\$5,873	\$3,438
Basic shares outstanding:				
Common stock	35,634	35,642	35,731	35,710
Restricted shares of common stock	1,255	1,262	1,251	1,240
	36,889	36,904	36,982	36,950
Diluted shares outstanding:				
Common stock	35,634	35,642	35,731	35,710
Dilutive effect of stock based awards	91	286	181	286
	35,725	35,928	35,912	35,996
Restricted shares of common stock	1,255	1,262	1,251	1,240
	36,980	37,190	37,163	37,236

Earnings per share attributable to common stock and restricted shares of common stock (participating securities) is as follows:

	Three months ended		Nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Basic earnings per share				
Common stock	\$ 0.08	\$ 0.05	\$ 0.28	\$ 0.19
Restricted shares of common stock	0.08	0.05	0.27	0.18

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**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, 2015, there were approximately 2,620,250 shares available for grant.

Stock-based compensation for the three and nine months ended September 30, 2015 and 2014 were as follows:

(in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Pre – tax cost	\$ 497	\$ 468	\$ 1,481	\$ 1,372
After tax cost	\$ 321	\$ 303	\$ 955	\$ 885

Restricted Stock

The following is a summary of the changes in non-vested restricted shares for the three and nine months ended September 30, 2015:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at December 31, 2014	1,251,400	\$ 6.47
Granted	319,750	7.08

Edgar Filing: MARINE PRODUCTS CORP - Form 10-Q

Vested	(313,800)	5.77
Forfeited	(2,750)	6.82
Non-vested shares at September 30, 2015	1,254,600	\$ 6.80

The total fair value of shares vested was approximately \$2,254,000 during the nine months ended September 30, 2015 and \$2,356,000 during the nine months ended September 30, 2014. Tax benefits for compensation tax deductions in excess of compensation expense totaling approximately \$221,000 for the nine months ended September 30, 2015 and \$311,000 for the nine months ended September 30, 2014 were credited to capital in excess of par value and classified as financing cash flows.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Other Information*

As of September 30, 2015, total unrecognized compensation cost related to non-vested restricted shares was approximately \$7,421,000. 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.

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2015	2014	2015	2014
Net realized gain	\$ 12	\$ 3	\$ 44	\$ 5
Reclassification of net realized gains from other comprehensive income	\$ 12	\$ 3	\$ 44	\$ 5

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

	September 30, 2015		December 31, 2014	
(in thousands)	Gross unrealized Gains	(Losses)	Gross unrealized Gains	(Losses)