

MARINE PRODUCTS CORP
Form 10-Q
August 07, 2006

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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 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___ NoX

As of July 25, 2006, Marine Products Corporation had 38,024,112 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 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.

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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.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock

The Company has granted employees two forms of restricted stock: time lapse restricted and performance restricted. Time lapse restricted shares vest after a stipulated number of years from the grant date, depending on the terms of the issue. Time lapse restricted shares issued in years 2003 and prior vest after ten years. Time lapse restricted shares issued in 2005 and 2004 vest in 20 percent increments annually starting with the second anniversary of the grant, over six years from the date of grant. Grantees receive dividends declared and retain voting rights for the granted shares. The performance restricted shares are granted, but not earned and issued until certain five-year tiered performance criteria are met. The performance criteria are predetermined market prices of Marine Products' common stock. On the date the common stock appreciates to each level (determination date), 20 percent of performance shares are earned. Once earned, the performance shares vest five years from the determination date. After the determination date, the grantee will receive dividends declared and voting rights to the shares.

The following is a summary of the changes in non-vested restricted shares for the six months ended June 30, 2006:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at January 1, 2006	562,574	\$ 8.79
Granted	153,000	\$ 11.24
Vested	(94,870)	\$ 5.07
Forfeited	(17,750)	\$ 12.66
Non-vested shares at June 30, 2006	602,954	\$ 9.88

The total fair value of shares vested was approximately \$1,267,000 during the six months ended June 30, 2006 and \$0 during the six months ended June 30, 2005. The tax benefit for compensation tax deductions in excess of compensation expense aggregating \$295,000 was credited to capital in excess of par value during the six months ended June 30, 2006 and \$0 during the six months ended June 30, 2005. This excess tax deduction is classified as a financing cash flow during the six months ended June 30, 2006 in accordance with SFAS123R.

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

As of June 30, 2006, total unrecognized compensation cost related to non-vested restricted shares was approximately \$4,755,000 and was eliminated against capital in excess of par value as required by SFAS 123R. This cost is expected to be recognized over a weighted-average period of 3.6 years. As of June 30, 2006, total unrecognized compensation cost related to non-vested stock options was approximately \$726,000 and is expected to be recognized over a weighted average period of 1.4 years.

Cash proceeds from options exercised totaled approximately \$160,000 during the six months ended June 30, 2006 and approximately \$300,000 during the six months ended June 30, 2005. The impact of these cash receipts is included in financing activities in the accompanying consolidated statements of cash flows. The fair value of shares tendered to exercise employee stock options totaled approximately \$297,000 during the six months ended June 30, 2006 and approximately \$264,000 during the six months ended June 30, 2005 and has been excluded from the consolidated statements of cash flows.

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 six months ended June 30, 2006 and 2005 is as follows:

<i>(in thousands)</i>	2006	2005
Balances at beginning of year	\$ 4,272	\$ 3,796
Less: Payments made during the period	(3,433)	(2,223)
Add: Warranty accruals during the period	2,545	2,553
Changes to warranty accruals issued in prior periods	343	7
Balances at June 30	\$ 3,727	\$ 4,133

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**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 June 30, 2006, the maximum contractual obligation and the amounts outstanding under these agreements, which expire in 2006 and 2007, totaled approximately \$3.6 million. The Company records the estimated fair value of the guarantee; at June 30, 2006, 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.

8. **INVENTORIES**

Inventories consist of the following:

<i>(in thousands)</i>	June 30, 2006	December 31, 2005
Raw materials and supplies	\$ 18,052	\$ 13,212
Work in process	6,840	7,727
Finished goods	8,785	5,917
Total inventories	\$ 33,677	\$ 26,856

9. **INCOME TAXES**

During the three months ended June 30, 2006, the Company reduced its estimated tax liabilities by \$788,000 in connection with the successful resolution of tax audits.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

<i>(in thousands)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Service cost	\$ -	\$ -		
Interest cost	61	63	122	126
Expected return on plan assets	(85)	(71)	(170)	(142)
Amortization of:				
Unrecognized net (gains) and losses	27	30	54	60
Net periodic benefit cost	\$ 3	\$ 22	\$ 6	\$ 44

During 2006 the Company contributed \$700,000 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 2006.

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, 2005 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 2005 in response to our concerns about dealer and consumer demand for our products caused by the hurricanes that occurred in the third and fourth quarters, which resulted in higher fuel prices and declining consumer sentiment regarding the attractiveness of recreational boating. In the second quarter of 2006, our production levels were slightly lower than the levels during the second quarter of 2005. The impact of this decrease was partially offset by an increase in average selling prices due to the change in model mix to build more of the larger models the demand for which has been fairly steady. Gross profit margin as a percentage of net sales decreased approximately 3.1 basis points compared to the second quarter of 2005. This decline was primarily due to higher costs of raw materials and accessories costs, specifically petroleum based products such as resin, vinyl and foam, and production inefficiencies due to lower unit production volumes. At the end of the quarter, our unit backlog was slightly higher than at this time last year due to lower dealer inventories and the strong demand experienced for several of our 2006 models.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**OUTLOOK**

The discussion on the outlook for 2006 is incorporated herein by reference from the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005.

The Company's production levels have increased from the low levels of the fourth quarter of 2005 and are relatively the same as the first quarter of 2006. The Company will be introducing the 2007 models in the dealer conferences scheduled for the third quarter of 2006. The Company 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 model year price increases to our dealers and effective management of our purchasing processes. For the model year 2007 that begins on July 1, 2006, the Company will institute further price increases to attempt to mitigate the impact of rising costs on its margins. The effect of this price increase can adversely affect consumers' decisions relating to recreational boating purchases.

RESULTS OF OPERATIONS

Key operating and financial statistics for the three and six months ended June 30, 2006 and 2005 follow:

<i>(\$ in thousands)</i>	Three months ended		Six months ended	
	June 30		June 30	
	2006	2005	2006	2005
Total number of boats sold	1,620	2,083	3,368	4,132
Average gross selling price per boat	\$ 43.7	\$ 37.3	\$ 41.5	\$ 36.6
Net sales	\$ 71,739	\$ 77,566	\$ 141,696	\$ 150,152
Percentage of cost of goods sold to net sales	77.5%	74.4%	76.7%	74.1%
Gross profit margin percent	22.5%	25.6%	23.3%	25.9%
Percentage of selling, general and administrative expense to net sales	11.8%	11.6%	12.1%	11.9%
Operating income	\$ 7,699	\$ 10,886	\$ 15,879	\$ 20,987
Warranty expense	\$ 1,639	\$ 1,304	\$ 2,888	\$ 2,560

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO THREE MONTHS ENDED JUNE 30, 2005

Net sales for the three months ended June 30, 2006 decreased \$5.8 million or 7.5 percent compared to the comparable period in 2005. The change in net sales was comprised of a 17.2 percent increase in average gross selling price per boat and an increase in parts and accessories sales and a 22.2 percent decrease in the number of boats sold. The increase in average selling price per boat was due to higher sales of larger boats, in addition to overall price increases that were implemented for the 2006 model year, which began in July 2005, and to a lesser extent, a price increase of approximately one percent that took effect in January 2006 to offset the higher cost of materials.

Cost of goods sold for the three months ended June 30, 2006 was \$55.6 million compared to \$57.7 million for the comparable period in 2005, a decrease of \$2.1 million or 3.6 percent. Cost of goods sold, as a percentage of net sales, increased primarily due to increases in the cost of certain materials and components, and production inefficiencies due to lower production volumes.

Selling, general and administrative expenses for the three months ended June 30, 2006 were \$8.4 million compared to \$9.0 million for the comparable period in 2005, a decrease of \$0.6 million or 6.1 percent. The decrease in selling, general and administrative expenses was primarily due to lower incentive compensation expense consistent with lower profitability. Warranty expense was 2.3 percent of net sales for the three months ended June 30, 2006 compared to 1.7 percent in the prior year. The increase was attributable to recent claims experience.

Operating income for the three months ended June 30, 2006 decreased \$3.2 million or 29.3 percent compared to the comparable period in 2005. Operating income was lower due to lower sales and gross profit margin percent.

Interest income was \$0.6 million during the three months ended June 30, 2006 compared to \$0.4 million for the comparable period in 2005. This increase resulted primarily from higher returns on our short term maturities due to rising interest rates during the period, coupled with an increase in investable balances in the second quarter of 2006 compared to the prior year.

Income tax provision for the three months ended June 30, 2006 reflects an effective tax rate of 24.1 percent, compared to 29.3 percent for the comparable period in the prior year. Both periods include adjustments to reduce tax liabilities. The adjustment in the second quarter of 2006 of \$0.8 million was due to the successful resolution of tax audits and the adjustment of \$0.4 million in the second quarter of 2005 resulted from tax return amendments. The income tax provision of \$2.0 million was \$1.3 million or 39.5 percent lower than the income tax provision of \$3.3 million for the comparable period in 2005.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Net sales for the six months ended June 30, 2006 decreased \$8.5 million or 5.6 percent compared to the comparable period in 2005. The change in net sales was comprised of a 13.4 percent increase in average gross selling price per boat and an increase in parts and accessories sales and an 18.5 percent decrease in the number of boats sold. The increase in average selling price per boat was due to higher sales of larger boats, in addition to overall price increases that were implemented for the 2006 model year, which began in July 2005, and to a lesser extent, a price increase of approximately one percent that took effect in January 2006 to offset the higher cost of materials

Cost of goods sold for the six months ended June 30, 2006 was \$108.7 million compared to \$111.3 million for the comparable period in 2005, a decrease of \$2.6 million or 2.3 percent. The decrease in cost of goods sold was primarily due to decreases in sales. Cost of goods sold, as a percentage of net sales, was slightly higher in 2006 than the comparable period in 2005, principally due to higher cost of raw materials and components, and production inefficiencies due to lower unit production volumes.

Selling, general and administrative expenses for the six months ended June 30, 2006 were \$17.1 million compared to \$17.8 million for the comparable period in 2005, a decrease of \$0.7 million or 4.3 percent. The decrease in selling, general and administrative expenses was primarily due to incremental costs that vary with sales and profitability, such as incentive compensation. Warranty expense was 2.0 percent of net sales for the six months ended June 30, 2006 compared to 1.7 percent in the prior year. The increase was attributable to recent claims experience.

Operating income for the six months ended June 30, 2006 decreased \$5.1 million or 24.3 percent compared to the comparable period in 2005. Operating income was lower due to lower sales and gross profit, partially offset by lower selling, general and administrative expenses during the period, as discussed above.

Interest income was \$1.0 million during the six months ended June 30, 2006 compared to \$0.7 million for the comparable period in 2005, an increase of \$0.3 million or 56.4 percent. This increase resulted primarily from higher returns during the period on the overnight and marketable securities in which Marine Products invests its available cash balances compared to the comparable period in 2005. The higher interest income during 2006 also resulted from increased balances of investable cash during the period compared to the prior year.

Income tax provision for the six months ended June 30, 2006 reflects an effective tax rate of 28.6 percent, compared to 31.8 percent for the six months ended June 30, 2005. For the six months ended June 30, 2006, the tax adjustment was \$0.8 million compared to \$0.4 million for the six months ended June 30, 2005, as discussed earlier. The income tax provision of \$4.8 million was \$2.0 million or 29.5 percent lower than the income tax provision of \$6.9 million for the comparable period in 2005.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIESLIQUIDITY AND CAPITAL RESOURCES*Cash Flows*

The Company's cash and cash equivalents at June 30, 2006 were \$44.2 million. The following table sets forth the historical cash flows for:

<i>(in thousands)</i>	Six months ended June 30,	
	2006	2005
Net cash provided by operating activities	\$ 10,418	\$ 10,396
Net cash provided by (used for) investing activities	16	(5,631)
Net cash used for financing activities	\$ (3,871)	\$ (10,077)

Cash provided by operating activities for the six months ended June 30, 2006 was substantially unchanged from the comparable period in 2005. Despite lower net income in the first six months of 2006 compared to the comparable period in 2005, cash provided by operating activities increased due to lower working capital requirements, primarily decreased accounts receivable and higher accounts payable due to the timing of payments offset by higher inventories and decrease in other accrued expenses caused by lower incentive accruals as a result of decreased sales and profitability.

Cash used for investing activities for the six months ended June 30, 2006 decreased approximately \$5.6 million compared to the comparable period in 2005, resulting primarily from decreased net purchases of non-current marketable securities.

Cash used for financing activities for the six months ended June 30, 2006 decreased approximately \$6.2 million primarily due to a decrease in repurchases of common shares in the open market, partially offset by an increase in the cash dividend paid per common share.

Financial Condition and Liquidity

The Company believes that the liquidity provided by existing cash, cash equivalents and marketable securities, its overall strong capitalization, and cash expected to be generated from operations, will provide sufficient capital to meet the Company's requirements for the next twelve months. The Company believes that the liquidity will allow it the ability to fund any growth and provide the opportunity to take advantage of business opportunities that may arise.

The Company's decisions about the amount of cash to be used for investing and financing purposes are influenced by its capital position and the expected amount of cash to be provided by operations.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

Cash Requirements

The Company currently expects that capital expenditures during 2006 will be approximately \$2.0 million, of which \$1.0 million has been spent through June 30, 2006.

The Company participates in a multiple employer Retirement Income Plan, sponsored by RPC, Inc. ("RPC"). The Company contributed \$700 thousand to the multiple employer pension plan in the first quarter of 2006 to achieve its funding objectives. The Company does not currently expect to make any additional contributions to this plan in 2006.

On July 26, 2006, the Board of Directors approved a quarterly cash dividend per common share of \$0.05. The Company expects to continue to pay cash dividends to common stockholders, subject to the earnings and financial condition of the Company and other relevant factors.

The Company has purchased a total of 2,559,241 shares in the open market pursuant to April 2001 and September 2005 resolutions of the Board of Directors that authorized in the aggregate the repurchase of up to 5,250,000 shares. As of June 30, 2006, the Company can purchase 2,690,759 additional shares under these programs. Details regarding the shares repurchased during the second quarter of 2006 have been disclosed in Part II, Item 2 of this document.

The Company has an immaterial amount of obligations and commitments that require future payments. See the section below titled Off Balance Sheet Arrangements for details regarding agreements that the Company has with third-party dealer floor plan lenders.

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.

OFF BALANCE SHEET ARRANGEMENTS

To assist dealers in obtaining financing for the purchase of its boats for inventory, the Company has entered into agreements with various dealers and selected third-party lenders to guarantee varying amounts of qualifying dealers' debt obligations. The Company's obligation under these guarantees becomes effective in the case of default by the dealer. The agreements provide for the return of all repossessed boats in "like new" condition to the Company, in exchange for the Company's assumption of specified percentages of the dealers' unpaid debt obligation on those boats capped at the lender level. As of June 30, 2006, the maximum contractual obligation to the lenders and the amount outstanding under these agreements, which expire in 2006 and 2007, totaled approximately \$3.6 million. The Company has recorded the estimated fair value of this guarantee; at June 30, 2006, this amount is immaterial and did not change from the prior year.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

RELATED PARTY TRANSACTIONS

In conjunction with its spin-off from RPC in 2001, the Company and RPC entered into various agreements that define their relationship after the spin-off. A detailed discussion of the various agreements in effect is contained in the Company's annual report on Form 10-K for the year ended December 31, 2005. The Company reimbursed RPC for its allocable share of administrative costs incurred for services rendered on behalf of Marine Products totaling approximately \$0.4 million in the six months ended June 30, 2006 and approximately \$0.3 million in the six months ended June 30, 2005.

CRITICAL ACCOUNTING POLICIES

The discussion of Critical Accounting Policies is incorporated herein by reference from the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005. There have been no significant changes in the critical accounting policies since year-end.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

See Note 3 of the Consolidated Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

SEASONALITY

Marine Products' quarterly operating results are affected by weather and the general economic conditions in the United States. Quarterly operating results for the second quarter historically have reflected the highest quarterly sales volume during the year with the first quarter being the next highest sales quarter. However, the results for any quarter are not necessarily indicative of results to be expected in any future period.

INFLATION

Recently, the Company has experienced an increase in certain raw materials and component costs. The Company responded to this increase in costs by instituting price increases effective during 2005, and in early 2006. These price increases did not fully absorb the increased costs for the quarter ended June 30, 2006 and therefore negatively impacted the gross margin percent. We anticipate, with continued high prices for commodities, energy and petroleum based product prices that the costs of these items will continue to increase. The Company plans to institute further price increases on its products effective with the 2007 model year of approximately three and half percent to partially offset these increased costs. No assurance can be given, however, that the Company will be able to adequately increase its product prices in response to inflation or estimate the impact on future sales of increasing product prices.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

New boat buyers typically finance their purchases. Higher inflation typically results in higher interest rates that could translate into increased cost of boat ownership. Prospective buyers may choose to delay their purchases or buy a less expensive boat.

FORWARD-LOOKING STATEMENTS

Certain statements made in this report that are not historical facts are “forward-looking statements” under Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include without limitation, the expected effect of recent accounting pronouncements on the Company’s consolidated results of operation and financial condition, statements that relate to the Company’s business strategy, plans and objectives, the Company’s plan and ability to effect future price increases, expectations for future warranty expense, the Company’s outlook for 2006, the Company’s schedule and plan for new model introductions, adequacy of capital resources and funds, opportunity for continued growth, estimated capital expenditures, estimated pension contributions, future dividends, estimates regarding boat purchase obligations, market risk exposure and the Company’s beliefs and expectations regarding future demand for the Company’s products and services. The words “may,” “should,” “will,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “project,” “estimate,” and “is expected to” used in this document that do not relate to historical facts are intended to identify forward-looking statements. Such statements are based on certain assumptions and analyses made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. We caution you that such statements are only predictions and not guarantees of future performance and that actual results, developments and business decisions may differ from those envisioned by the forward-looking statements. Risk factors that could cause such future events not to occur as expected include the following: possible decreases in the level of consumer confidence impacting discretionary spending, the possibility that boat owners will not buy replacement boats as expected, increased interest rates, continued increases in fuel prices, the Company’s inability to offset anticipated production decreases with increased average selling prices and cost reductions, changes in consumer preferences, deterioration in the quality of Marine Products’ network of independent boat dealers or availability of financing of their inventory, and competition from other boat manufacturers and dealers. Additional discussion of factors that could cause the actual results to differ materially from management’s projections, forecasts, estimates and expectations is contained in Marine Products’ Form 10-K, filed with the Securities and Exchange Commission for the year ended December 31, 2005. The Company does not undertake to update its forward-looking statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Marine Products does not utilize financial instruments for trading purposes and, as of June 30, 2006, did not hold derivative financial instruments that could expose the Company to significant market risk. Also, as of June 30, 2006, the Company's investment portfolio, totaling approximately \$50.4 million and comprised of United States Government treasury notes, federal agency obligations, corporate backed obligations, asset backed securities and municipal debt securities, is subject to interest rate risk exposure. This risk is managed through conservative policies to invest in high-quality obligations that are both short-term and long-term in nature. Marine Products has not experienced any material changes in market risk exposures or how those risks are managed since the end of fiscal year 2005, and currently expects no such changes through the end of the year.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures - The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to its management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, June 30, 2006 (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the Evaluation Date.

Changes in internal control over financial reporting - Management's evaluation of changes in internal control did not identify any changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, during the quarter ended June 30, 2006, the Company implemented a new financial system and converted certain critical data and reports to the new system.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

Marine Products is involved in litigation from time to time in the ordinary course of its business. Marine Products does not believe that the outcome of such litigation will have a material adverse effect on the financial position or results of operations of Marine Products.

Item 1A. RISK FACTORS

See the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDSPurchases of Equity Securities by the Issuer and Affiliated Purchasers

Shares repurchased by Marine Products during the three months ended June 30, 2006 were as follows:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
Month #1 April 1, 2006 to April 30, 2006	8,294 (2)	\$ 10.79	-	2,706,466
Month #2 May 1, 2006 to May 31, 2006	15,707	\$ 9.55	15,707	2,690,759
Month #3 June 1, 2006 to June 30, 2006	6,701 (3)	\$ 9.87	-	2,690,759
Totals	30,702	\$ 9.95	-	2,690,759

(1)The Company's Board of Directors announced a stock buyback program on April 25, 2001 authorizing the repurchase of 2,250,000 shares in the open market and another on September 14, 2005 authorizing the repurchase of an additional 3,000,000 shares. A total of 2,559,241 shares have been repurchased through June 30, 2006. The programs do not have predetermined expiration dates.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

(2) Represents 2,001 shares tendered at an average price of \$10.79 per share in connection with the exercise of stock options and 6,293 shares tendered at an average price of \$10.76 for withholding taxes related to the release of restricted shares.

(3) Represents shares tendered for withholding taxes related to the release of restricted shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders was held on April 25, 2006. At the meeting, the stockholders voted to re-elect three Class II directors to the Board of Directors for the terms expiring in 2009.

The following table sets forth the votes cast with respect to each of these proposals:

<i>Proposal</i>	<i>For</i>	<i>Against</i>	<i>Broker Non Votes</i>	<i>Withheld</i>	<i>Abstain</i>
Re-election of Richard A. Hubbell	36,736,335	-	-	311,843	-
Re-election of Linda H. Graham	36,707,370	-	-	330,808	-
Election of Bill J. Dismuke	36,805,353	-	-	232,825	-

Messrs. Wilton Looney, Gary W. Rollins, James A. Lane, Jr., R. Randall Rollins, Henry B. Tippie and James B. Williams were not up for re-election and have continued as directors.

ITEM 5. OTHER INFORMATION

None

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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

ITEM 6.

Exhibits

Exhibit Description
Number

- | | |
|---------|--|
| 3.1(a) | Marine Products Corporation Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 10 filed on February 13, 2001). |
| 3.1 (b) | Certificate of Amendment of Certificate of Incorporation of Marine Products Corporation executed on June 8, 2005 (incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed June 9, 2005). |
| 3.2 | By-laws of Marine Products Corporation (incorporated herein by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 6, 2004). |
| 4 | Restated Form of Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 10 filed on February 13, 2001). |
| 31.1 | Section 302 certification for Chief Executive Officer |
| 31.2 | Section 302 certification for Chief Financial Officer |
| 32.1 | Section 906 certifications for Chief Executive Officer and Chief Financial Officer |

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARINE PRODUCTS CORPORATION

Date: August 7, 2006

/s/ Richard A. Hubbell
Richard A. Hubbell
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2006

/s/ Ben M. Palmer
Ben M. Palmer
Vice President, Chief Financial Officer and
Treasurer
(Principal Financial and Accounting Officer)