

MARINE PRODUCTS CORP
Form 10-K
March 01, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
Commission File No. 1-16263

MARINE PRODUCTS CORPORATION
Delaware 58-2572419
(State of Incorporation) (I.R.S. Employer Identification No.)
2801 BUFORD HIGHWAY, SUITE 520
ATLANTA, GEORGIA 30329
(404) 321-7910

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, \$0.10 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer 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

The aggregate market value of Marine Products Corporation common stock held by non-affiliates on June 30, 2012, the last business day of the registrant’s most recent second fiscal quarter, was \$62,673,648 based on the closing price on the New York Stock Exchange on June 30, 2012 of \$6.08 per share.

Marine Products Corporation had 38,104,520 shares of common stock outstanding as of February 15, 2013.

Documents Incorporated by Reference

Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders of Marine Products Corporation are incorporated by reference into Part III, Items 10 through 14 of this report.

PART I

References in this document to “we,” “our,” “us,” “Marine Products,” or “the Company” mean Marine Products Corporation (“MPC”) and its subsidiaries, Chaparral Boats, Inc. (“Chaparral”) and Robalo Acquisition Company LLC (“Robalo”), collectively or individually, except where the context indicates otherwise.

Forward-Looking Statements

Certain statements made in this report that are not historical facts are “forward-looking statements” under 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 financial statements; the Company’s estimate for warranty accruals; enhance the Company’s belief that there exists a favorable outlook for the near-term selling environment for our products; management’s belief that net sales will increase in 2013 compared to 2012; the Company’s belief that sales of the Company’s new models will either maintain or increase consolidated net sales, gross profit, operating income and net income compared to 2012, by increasing unit sales and spreading our fixed production costs over higher production volume; the Company’s belief that retail boat sales have started to increase over the past several quarters; the Company’s belief that this increase in retail sales will be modest; our belief that a slow recovery from the recession, continued high unemployment, depressed real estate values and continued weak consumer confidence will tend to discourage consumers from purchasing large discretionary goods such as pleasure boats; the lower expected returns on financial assets may have long term effects on consumer behavior with regard to pleasure boating; the Company’s belief that the recreational boating industry promotional program has incrementally benefited the industry and Marine Products; our plans to enhance the value-priced Chaparral and Robalo models we initially introduced in 2012 as well as to develop new Chaparral and Robalo models which we believe will appeal to our target markets; our belief that the value-priced models introduced last year and the new models being developed will continue to enhance the achievement of our objectives related to improved manufacturing cost efficiencies, meeting dealer requests for entry-level models and increasing the retail market share; the Company’s belief that its liquidity, capitalization and cash expected to be generated from operations, will provide sufficient capital to meet the Company’s requirements for at least the next twelve months; the Company’s expectations about capital expenditures during 2013; the Company’s expectation about contributions to its pension plan in 2013; the Company’s belief that it may repurchase additional outstanding common shares periodically based on market conditions; our plans, intentions, and strategies regarding pursuing acquisitions and strategic alliances; the Company’s expectation to continue to pay cash dividends to common stockholders subject to earnings and financial condition of the Company and other relevant factors; the Company’s expectations about the use of net operating loss carryforwards; the expectation that boat operating licenses will not be unduly restrictive; the Company’s expectation to continue purchasing sterndrive engines through the ABA; expectations regarding expenditures necessary to comply with environmental or safety regulations; the Company’s belief that it will not be able to institute sufficient price increases to compensate for increased material costs; the Company’s belief that it is likely that these increased prices will negatively impact the Company’s operating results; the Company’s expectation regarding market risk of its investment portfolio; and the Company’s expectations about the effect of litigation on the Company’s financial position or results of operations.

The words “may,” “should,” “will,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “project,” “estimate,” expressions 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: economic conditions, unavailability of credit and possible decreases in the level of consumer confidence

impacting discretionary spending, business interruptions due to adverse weather conditions, increased interest rates, unanticipated changes in consumer demand and preferences, deterioration in the quality of Marine Products' network of independent boat dealers or availability of financing of their inventory, our ability to insulate financial results against increasing commodity prices, the impact of rising gasoline prices and a weak housing market on consumer demand for our products, competition from other boat manufacturers and dealers, and insurance companies that insure a number of Marine Products' marketable securities have been downgraded, which may cause volatility in the market price of Marine Products' marketable securities. 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. See "Risk Factors" on page 12 for a discussion of factors that may cause actual results to differ from our projections.

Item 1. Business

Marine Products manufactures fiberglass motorized boats distributed and marketed through its independent dealer network. Marine Products' product offerings include Chaparral sterndrive and inboard pleasure boats and Robalo outboard sport fishing boats.

Organization and Overview

Marine Products is a Delaware corporation incorporated on August 31, 2000, in connection with a spin-off from RPC, Inc. (NYSE: RES) ("RPC"). Effective February 28, 2001, RPC accomplished the spin-off by contributing 100 percent of the issued and outstanding stock of Chaparral to Marine Products, a newly formed wholly owned subsidiary of RPC, and then distributing the common stock of Marine Products to RPC stockholders.

Marine Products designs, manufactures and sells recreational fiberglass powerboats in the sportboat, deckboat, cruiser, sport yacht and sport fishing markets. The Company sells its products to a network of 135 domestic and 69 international independent authorized dealers. Marine Products' mission is to enhance its customers' boating experience by providing them with high quality, innovative powerboats. The Company intends to remain a leading manufacturer of recreational powerboats for sale to a broad range of consumers worldwide.

The Company manufactures Chaparral sterndrive and inboard-powered pleasure boats including H2O Sport and Fish & Ski boats, SSi and SSX Sportboats, Sunesta Sportdecks and Xtreme Tow boats, Signature Cruisers, Premiere Sport Yachts and Robalo outboard sport fishing boats. The most recent available industry statistics [source: Statistical Surveys, Inc. report dated September 30, 2012] indicate that Chaparral is the third largest manufacturer of sterndrive boats in lengths from 18 to 35 feet in the United States.

Chaparral was founded in 1965 in Ft. Lauderdale, Florida. Chaparral's first boat was a 15-foot tri-hull design with a retail price of less than \$1,000. Over time Chaparral grew by offering exceptional quality and consumer value. In 1976, Chaparral moved to Nashville, Georgia, where a manufacturing facility of a former boat manufacturing company was available for purchase. This provided Chaparral an opportunity to obtain additional manufacturing space and access to a trained work force. With almost 47 years of boatbuilding experience, Chaparral continues to improve the design and manufacturing of its product offerings to meet the growing needs of discriminating recreational boaters.

Robalo was founded in 1969 and its first boat was a 19-foot center console salt-water fishing boat, among the first of this type of boat to have an "unsinkable" hull. The Company believes that Robalo's share of the outboard sport fishing boat market is approximately two percent.

Products

Marine Products distinguishes itself by offering a wide range of products to the family recreational, cruiser and sport yacht markets through its Chaparral brand, and to the sport fishing market through its Robalo brand.

The following table provides a brief description of our product lines and their particular market focus:

Product Line	Number of Models	Overall Length	Approximate Retail Price Range	Description
Chaparral – H2O Sport Series	4	18 -19	\$24,000 - \$39,000	Fiberglass multipurpose runabouts. Sport and Ski & Fish series offers an affordable, entry-level product with a national fixed retail price including a standard engine and single axle trailer. Marketed to both experienced and value-conscious buyers.
Chaparral - SSi Wide Tech™	6	20 -25	\$41,000 - \$100,000	Fiberglass closed deck runabouts. Encompasses affordable, entry-level to mid-range and larger sportboats. Marketed as high value runabouts for family groups. Wide Tech™ is marketed as an affordable, entry-level to mid-range pleasure boat with the handling of a runabout, the style of a sportboat and the roominess of a cruiser.
Chaparral - SSX Sportdeck	5	26 -32	\$92,000 - \$328,000	Fiberglass bowrider crossover sportboats that combine the ride of a sportboat and the usefulness of a deckboat. Marketed as high value runabouts for family groups.
Chaparral – Sunesta and Xtreme Tow Boat	8	20 -28	\$60,000 - \$164,000	Fiberglass pleasure boats with a high-performance hull design and updated styling. Xtreme, with Wide Tech™ innovation, is marketed as a high-performance wakeboard/ski boat with technical features and styling that appeal to wakeboard and ski enthusiasts.
Chaparral - Signature Cruiser	6	27 -37	\$101,000 - \$487,000	Fiberglass, accommodation-focused cruisers. Marketed to experienced boat owners through trade magazines and boat show exhibitions.
Chaparral - Premiere Sport Yacht	1	42	\$700,000 - \$896,000	High value, fiberglass sport yacht with a Wide Tech™ bow design marketed to experienced boat owners through trade magazines and boat show exhibitions.
Robalo - Sport Fishing Boat	13	18 -30	\$28,000 - \$301,000	Sport fishing boats for large freshwater lakes or saltwater use. Marketed to experienced fishermen. For the 2013 model year, two models

are marketed to first-time and value-conscious buyers with a national fixed retail price and standard features.

Manufacturing

Marine Products' manufacturing facilities are located in Nashville, Georgia and Valdosta, Georgia. The Company idled its plant located in Valdosta, Georgia in response to declines in production volumes in a prior year. Marine Products utilizes five different plants to, among other things, manufacture interiors, design new models, create fiberglass hulls and decks, and assemble various end products. Quality control is conducted throughout the manufacturing process. The Company's manufacturing operations are ISO 9001: 2008 certified, which is an international designation of design, manufacturing, and customer service processes. ISO 9001: 2008 surpasses previous ISO designations. Management believes Chaparral is the third largest sterndrive boat manufacturing brand to hold the ISO 9001: 2008 certification. When fully assembled and inspected, the boats are loaded onto either company-owned trailers or third-party marine transport trailers for delivery to dealers. The manufacturing process begins with the design of a product to meet dealer and customer needs. Plugs are constructed in the research and development phase from designs. Plugs are used to create a mold from which prototype boats can be built. Adjustments are made to the plug design until acceptable parameters are met. The final plug is used to create the necessary number of production molds. Molds are used to produce the fiberglass hulls and decks. Fiberglass components are made by applying the outside finish or gel coat to the mold, then numerous layers of fiberglass and resin are applied during the lamination process over the gel coat. After curing, the hull and deck are removed from the molds and are trimmed and prepared for final assembly, which includes the installation of electrical and plumbing systems, engines, upholstery, accessories and graphics.

Product Warranty

For most of our Chaparral products, Marine Products provides a lifetime limited structural hull warranty against defects in material and workmanship for the original purchaser, and a five-year limited structural hull warranty for one subsequent owner. Additionally, a non-transferable five-year limited structural deck warranty against defects in materials and workmanship is available to the original owner. Warranties on additional items are provided for periods of one to five years.

For our Chaparral Premiere model, Marine Products provides a transferable five-year limited structural hull and deck warranty against defects in material and workmanship for the original and one subsequent owner. A one-year limited warranty is available on most other components to the original owner and one subsequent owner along with warranties on some additional items ranging from one to five years.

For our Robalo products, Marine Products provides a transferable ten-year limited structural hull warranty against defects in material and workmanship to the original owner, and a five-year limited hull warranty to one subsequent owner. Additionally, Marine Products provides a transferable one-year limited warranty on other components.

The engine manufacturers for our Robalo and Chaparral products warrant engines included in the boats as well.

Suppliers

Marine Products' two most significant components used in manufacturing its boats, based on cost, are engines and fiberglass. For each of these, there is currently an adequate supply available in the market. Marine Products has not experienced any material shortages in any of these products. Temporary shortages, when they do occur, usually involve manufacturers of these products adjusting model mixes, introducing new product lines or limiting production in response to an industry-wide reduction in boat demand. Marine Products obtains most of its fiberglass from a leading domestic supplier. Marine Products believes that there are several alternative suppliers if this supplier fails to provide adequate quality or quantities at acceptable prices.

Marine Products does not manufacture the engines installed in its boats. Engines are generally specified by the dealers at the time of ordering, usually on the basis of anticipated customer preferences or actual customer orders. Sterndrive engines are purchased through the American Boatbuilders Association (“ABA”), which has entered into engine supply arrangements with Mercury Marine and Volvo Penta, the two currently existing suppliers of sterndrive engines. These arrangements contain incentives and discount provisions, which may reduce the cost of the engines purchased, if specified purchase volumes are met during specified periods of time. Although no minimum purchases are required, Marine Products expects to continue purchasing sterndrive engines through the ABA on a voluntary basis in order to receive volume-based purchase discounts. Marine Products does not have a long-term supply contract with the ABA. Marine Products has an outboard engine supply contract with Yamaha. This engine supply arrangement was not negotiated through the ABA. In the event of a sudden and extended interruption in the supply of engines from these suppliers, our sales and profitability could be negatively impacted. See “Risk Factors” below.

Marine Products uses other raw materials in its manufacturing processes. Among these are stainless steel, copper and resins made from hydrocarbon feedstocks. In response to global economic uncertainties, the prices of these commodities have fluctuated significantly over the past several years. During 2011 and 2012, these prices stabilized, but at historically high levels. See “Inflation” below.

Sales and Distribution

Domestic sales are made through approximately 74 Chaparral dealers, 16 Robalo dealers and 45 dealers that sell both brands located in markets throughout the United States. Marine Products also has 69 international dealers. During 2012 the financial strength of our dealer network improved due to lower field inventories and improved availability of floorplan financing. Most of our dealers inventory and sell boat brands manufactured by other companies, including some that compete directly with our brands. The territories served by any dealer are not exclusive to the dealer; however, Marine Products uses discretion in establishing relationships with new dealers in an effort to protect the mutual interests of the existing dealers and the Company. Marine Products' seven independent field sales representatives call upon existing dealers and develop new dealer relationships. The field sales representatives are directed by a National Sales Coordinator, who is responsible for developing a full dealer distribution network for the Company's products. The marketing of boats to retail customers is primarily the responsibility of the dealer. Marine Products supports dealer marketing efforts by supplementing local advertising, sales and marketing follow up in boating magazines, and participation in selected regional, national, and international boat show exhibitions. No single dealer accounted for more than 10 percent of net sales during 2012, 2011 or 2010.

Marine Products continues to seek new dealers in many areas throughout the U.S., Europe, South America, Asia, Russia and the Middle East. In general, Marine Products requires payment in full before it will ship a boat overseas. Consequently, there is no credit risk associated with its international sales or risk related to foreign currency fluctuation. The volume of sales to international dealers as a percentage of total net sales declined in 2012 compared to 2011 due to the persistent economic crisis primarily in Europe. International sales demand is also affected by the value of the U.S. dollar relative to other currencies. International net sales as a percentage of total net sales were 20.3 percent in 2012, 21.4 percent in 2011, and 30.5 percent in 2010.

Marine Products' sales orders are indicators of strong interest from its dealers. Historically, dealers have in most cases taken delivery of all their orders. The Company attempts to ensure that its dealers do not accept an excessive amount of inventory by monitoring their inventory levels. Knowledge of inventory levels at the individual dealers facilitates production scheduling with shorter lead times in order to maintain flexibility in the event that adjustments need to be made to dealer shipments. In the past, Marine Products has been able to resell any boat for which an order has been cancelled.

Approximately 67 percent of Marine Products' domestic shipments are made pursuant to "floor plan financing" programs in which Marine Products' subsidiaries participate on behalf of their dealers with major third-party financing institutions. The remaining dealers finance their boat inventory with smaller regional financial institutions in local markets or pay cash. Under these established arrangements with qualified lending institutions, a dealer establishes a line of credit with one or more of these lenders for the purchase of boat inventory for sales to retail customers in their showroom or during boat show exhibitions. In general, when a dealer purchases and takes delivery of a boat pursuant to a floor plan financing arrangement, it draws against its line of credit and the lender pays the invoice cost of the boat directly to Marine Products generally within 5 business days. When the dealer in turn sells the boat to a retail customer, the dealer repays the lender, thereby restoring its available credit line. Each dealer's floor plan credit facilities are secured by the dealer's inventory, letters of credit, and perhaps other personal and real property. Until recently, most dealers maintained financing arrangements with more than one lender, although that is less common at the present time, given that there are fewer lenders. In connection with a dealer's floor plan financing arrangements with a qualified lending institution, Marine Products or its subsidiaries have agreed to repurchase inventory which the lender repossesses from a dealer and returns to Marine Products in a "new and unused" condition subject to normal wear and tear, as defined. The contractual agreements that Marine Products or its subsidiaries have with these qualified lenders contain the Company's assumption of specified percentages of the debt obligation on repossessed boats, up to certain contractually determined dollar limits set by the lender.

The Company currently has an agreement with one of the floor plan lenders whereby the contractual repurchase amount is limited to a maximum of 15 percent of the average net receivables financed by the floor plan lender for our dealers during the prior 12 month period, which was \$5.3 million as of December 31, 2012. The Company has contractual repurchase agreements with additional lenders with an aggregate maximum repurchase obligation of approximately \$5.4 million, with various expiration and cancellation terms of less than one year. The aggregate repurchase obligation with all financing institutions was approximately \$10.7 million as of December 31, 2012. In the event that a dealer defaults on a credit line, the qualified lender may then invoke the manufacturers' repurchase obligation with respect to that dealer. In that event, all repurchase agreements of all manufacturers supplying a defaulting dealer are generally invoked regardless of the boat or boats with respect to which the dealer has defaulted. Unlike Marine Products' obligation to repurchase boats repossessed by qualified lenders, Marine Products is under no obligation to repurchase boats directly from dealers. Marine Products does not sponsor financing programs to the consumer; any consumer financing promotions for a prospective boat purchaser would be the responsibility of the dealer.

Marine Products' dealer sales incentive programs are generally designed to promote early replenishment of the stock in dealer inventories depleted throughout the prime spring and summer selling seasons, and to promote the sales of older models in dealer inventory and particular models during specified periods. These programs help to stabilize Marine Products' manufacturing between the peak and off-peak periods, and promote sales of certain models. For the 2013 model year (which commenced July 1, 2012), Marine Products offered its dealers several sales incentive programs based on dollar volumes and timing of dealer purchases. Program incentives offered include sales discounts, retail sales incentives and payment of floor plan financing interest charged by qualified floor plan lenders to dealers generally through May 1, 2013. After the interest payment programs end, interest costs revert to the dealer at rates set by the lender. A dealer makes periodic curtailment payments (principal payments) on outstanding obligations against its dealer inventory as set forth in the floor plan financing agreements between the dealer and its particular lender.

We believe that our dealers' inventories of our boat models are appropriate relative to the current level of customer demand; 64 percent of dealers' inventories are 2013 model year units. The sales order backlog as of December 31, 2012 was approximately 809 boats with estimated net sales of approximately \$29.4 million. This represents an approximate 11.6 week backlog based on recent production levels. As of December 31, 2011, the sales order backlog was approximately 900 boats with estimated net sales of \$34.9 million, representing an approximate 14 week backlog. The Sales order backlog at December 31, 2011 reflected the significant number of dealer orders obtained upon the successful introduction of the new entry level models in the fourth quarter of 2011. The Company will continue to monitor the number of boats in dealer inventory and is prepared to adjust its production levels as it deems necessary to manage dealer inventory levels. The Company typically does not manufacture a significant number of boats for its own inventory. The Company occasionally manufactures boats for its own inventory because the number of boats required for immediate shipment is not always the most efficient number of boats to produce in a given production schedule.

Research and Development

Essentially the same technologies and processes are used to produce fiberglass boats by all boat manufacturers. The most common method is open-face molding. This is usually a labor-intensive, manual process whereby employees hand spray and apply fiberglass and resin in layers on open molds to create boat hulls, decks and other smaller fiberglass components. This process can result in inconsistencies in the size and weight of parts, which may lead to higher warranty costs. A single open-face mold is typically capable of producing approximately three hulls per week.

Marine Products has been a leading innovator in the recreational boating industry. One of the Company's most innovative designs is the full-length "Extended V-Plane" running surface on its Chaparral boat models. Typically, sterndrive boats have a several foot gap on the bottom rear of the hull where the engine enters the water. With the Extended V-Plane, the running surface extends the full length to the rear of the boat. The benefit of this innovation is more deck space, better planning performance and a more comfortable ride. Although the basic hull designs are similar, the Company has historically introduced a variety of new models each year and periodically replaces, updates or discontinues existing models.

Another hull design is the Hydro Lift™ used on the Robalo boat models. This variable dead rise hull design provides a smooth ride in rough water conditions. It increases the maximum speed obtainable by a given engine horsepower and weight of the boat. Robalo's current models utilize the Hydro Lift™ design and we plan to continue to provide this design on Robalo models.

A bow design known as the Wide Tech™ was first used on the Chaparral Sunesta Wide Tech™ and Xtreme models for the 2008 model year, and is currently being used on Chaparral's Premiere Sport Yacht, SSi Wide Tech™ Sport Boats, Sunesta Sportdecks, Xtreme Tow Boats and two Signature Cruisers. The Wide Tech™ bow design allows the models to have the Extended V-Plane hull, with the features and benefits that this hull design offers. In addition, the

Wide Tech™ bow design provides a larger seating area, as well as additional storage space, in the front of the boat. Furthermore, it allows the models to have a non-skid walkway on the bow, which makes entering and leaving the boat easier than in other boat models. This bow design may be incorporated on other Chaparral boat models in subsequent model years.

In support of its new product development efforts, Marine Products incurred research and development costs of \$768 thousand in 2012, \$789 thousand in 2011, and \$489 thousand in 2010.

Industry Overview

The recreational marine market in the United States is a mature market, with 2011 (latest data available to us) retail expenditures of approximately \$32 billion spent on new and used boats, motors and engines, trailers, accessories and other associated costs as estimated by the National Marine Manufacturers Association (“NMMA”). Pleasure boats compete for consumers’ limited free time with all other leisure activities.

The NMMA conducts various surveys of pleasure boat industry trends, and the most recent surveys indicate that 83 million adults in the United States participated in recreational boating in 2011, an increase of 11 percent compared to the prior year, although non-active boat owners cite lack of leisure time and increased operational and fuel costs as the primary reasons for not using their boats. A higher percentage of American consumers participated in recreational boating in 2011 than in any year since 1997. There are currently approximately 16 million boats owned in the United States, including outboard, inboard, sterndrive, sailboats, personal watercraft, and miscellaneous (canoes, kayaks, rowboats, etc.). Marine Products competes in the sterndrive and inboard boating category with its seven lines of Chaparral boats, and in the outboard boating category with its Robalo sport fishing boats. Approximately 85 percent of the Company’s unit sales are sterndrive boats.

Industry sales of new sterndrive boats in the United States during 2012 totaling 13,959 (source: Info-Link Technologies, Inc.) accounted for approximately 28 percent of the total new fiberglass powerboats sold between 18 and 35 feet in hull length. Sales of sterndrive boats had an estimated total retail value of \$708 million, or an average retail price per boat of approximately \$51,000. Management believes that the five largest states for boat sales at the present time are Florida, Texas, Michigan, New York and Louisiana. Marine Products has dealers in each of these states.

The U.S. domestic recreational boating industry includes sales in the segments of new and used boats, motors and engines, trailers, and other boat accessories. The new fiberglass boat market segment with hull lengths of 18 to 35 feet, the primary market segment in which Marine Products competes, represented \$2.1 billion in retail sales during 2012. The table below reflects the estimated sales within this segment by category for 2012 and 2011 (source: Info-Link Technologies, Inc.):

	2012		2011	
	Boats	Sales (\$ B)	Boats	Sales (\$ B)
Sterndrive Boats	13,959	\$0.7	14,412	\$0.7
Outboard Boats	26,209	0.9	23,125	0.7
Inboard Boats	5,694	0.4	5,180	0.3
Jet Boats	3,558	0.1	2,588	0.1
TOTAL	49,420	\$2.1	45,305	\$1.8

Chaparral's products are categorized as sterndrive and inboard boats and Robalo's products are categorized as outboard boats. As shown in the table above, the sterndrive boats segment was the only segment that experienced a decline in unit sales between 2011 and 2012.

The recreational boat manufacturing market remains highly fragmented with the exception of Brunswick Corporation, which has acquired and currently operates a number of recreational boat brands. We estimate that the boat manufacturing industry includes approximately 70 sterndrive manufacturers and over 200 outboard boat manufacturers, with the majority representing small, privately held companies with varying degrees of professional management and manufacturing skill. According to estimates provided by Statistical Surveys, Inc., during the nine months ended September 30, 2012 (latest information available), the top five sterndrive manufacturers, which includes Chaparral, have a market share of approximately 56 percent, an increase of two percentage points compared to the same time last year. Chaparral's market share in units during this 9 month period was 11.7 percent, which represents a significant increase of approximately 3.4 percentage points compared to 8.3 percent during the 12 months ended December 31, 2011. The Company believes that this significant improvement in market share is due primarily to the success of our value-priced Chaparral H2O models, which are 18 or 19 feet in length.

Several factors influence sales trends in the recreational boating industry, including general economic growth, consumer confidence, household incomes, the availability and cost of financing for our dealers and customers, weather, fuel prices, tax laws, demographics and consumers' leisure time. Also, the value of residential and vacation real estate in coastal and recreational areas influences recreational boat sales. The most recent NMMA surveys indicate that participation in recreational boating has increased, that many boaters participate in boating by using another person's boat, and that retirements of used boats have reduced the size of the total recreational boat fleet. These factors are positive indicators for near-term boat sales. However, these surveys also indicate that many past boating participants do not currently participate in boating because of high costs and a lack of leisure time. The increases in the cost of certain components, operating costs, and the impact of environmental regulation have increased the cost of boats in recent years, and these trends may continue. Competition from other leisure and recreational activities for available leisure time can also affect sales of recreational boats.

Management believes Marine Products is well positioned to take advantage of the following conditions, which continue to characterize the industry:

labor-intensive manufacturing processes that remain largely unautomated;

increasingly strict environmental standards derived from governmental regulations and customer sensitivities;

a lack of focus on coordinated customer service and support by dealers and manufacturers;

a lack of financial strength among retail boat dealers and many manufacturers; and

a high degree of fragmentation and competition among the large number of sterndrive and outboard recreational boat manufacturers.

Business Strategies

Recreational boating is a mature industry. According to Info-Link Technologies, Inc., sales of sterndrive boats declined at a compounded annual rate of approximately 6 percent between 2009 and 2012. During this period, Marine Products experienced a compounded annual growth rate of approximately 52 percent in the number of boats sold. The Company has historically grown its boat sales and net sales primarily through increasing market share and by expanding its number of models and product lines. During 2012 the Company's strategy has been to support our dealers' need to maintain a higher level of inventories than in previous years, given relatively stable retail demand and an improved dealer financing environment. At the end of 2012, the Company's dealer inventories were approximately 52 percent higher than they were at the end of 2011, and our unit order backlog remained strong. We believe that higher inventories and the current unit order backlog are appropriate relative to expected retail demand during the 2013 retail selling season. Chaparral has grown its sterndrive market share in the 18 to 35 feet length category from 5.9 percent in fiscal 1996 to 11.7 percent during the nine months ended September 30, 2012 (the most recent information available to us from Statistical Surveys, Inc.). Our market share increased across the breadth of our model sizes during 2012, although market share increased at a higher rate among our smaller boat models.

During 2011 Marine Products developed several new Chaparral and Robalo models for the 2012 model year which address the market for entry-level, value-priced boats. These models, the Chaparral H2O Sport and Fish & Ski Boats and the Robalo R180 and R200, are affordable models with a small number of standard features. These models also carry nationally advertised fixed pricing and include a trailer. Marine Products developed these models in order to increase unit sales in a segment in which the Company has an opportunity to increase market share and improve profitability. Furthermore, we hope to capture additional market share as purchasers of these entry-level models purchase larger Chaparral or Robalo models in the future. During 2012, sales of these models were responsible for increases in our net sales, gross profit, operating profit, and net income. They were also responsible for our significant increases in market share. Chaparral's market share in the 18 to 19 foot category increased approximately 8 percentage points in 2012.

These new models align with Marine Products' overall operating strategy, which emphasizes innovative designs and manufacturing processes, and the production of a high quality product, while also seeking to lower manufacturing costs through increased efficiencies in our facilities. In the current environment, this strategy also includes the production of lower-priced, entry level models which appeal to a value-conscious consumer who wants an updated, high quality product. In addition, we seek opportunities to leverage our buying power through economies of scale. Management believes its membership in the ABA positions Marine Products as a significant third-party customer of major suppliers of sterndrive engines. Marine Products' Chaparral subsidiary is a founding member of the ABA, which collectively represents 12 independent boat manufacturers that have formed a buying group to pool their purchasing power in order to achieve improved pricing on engines, fiberglass, resin and many other components. Marine Products intends to continue seeking the most advantageous purchasing arrangements from its suppliers.

Our marketing strategy seeks to increase market share by enabling Marine Products to expand its presence by building dedicated sales, marketing and distribution systems. Marine Products has a distribution network of 204 dealers located throughout the United States and several international markets. Our strategy is to increase selectively the quantity of our dealers, and to improve the quality and effectiveness of our entire dealer network. We have implemented a marketing program for potential new dealers which emphasizes our financial strength and product quality as an alternative to many other manufacturing organizations which are less financially stable. As a result of this program, we believe that we gained a number of new, strong dealers who approached us because the manufacturer of products they carried became insolvent or ceased production. Marine Products seeks to capitalize on its strong dealer network by educating its dealers on the sales and servicing of our products and helping them provide more comprehensive customer service, with the goal of increasing customer satisfaction, customer retention and future sales. Marine Products provides promotional and incentive programs to help its dealers increase product sales and customer

satisfaction.

A component of Marine Products' overall strategy is to consider making strategic acquisitions in order to complement existing product lines, expand its geographic presence in the marketplace and strengthen its capabilities depending upon availability, price and complementary product lines. We constantly review potential acquisition targets and intend to continue doing so in the future.

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Competition

The recreational boat industry is highly fragmented, resulting in intense competition for customers, dealers and boat show exhibition space. There is significant competition both within market