

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

Commission File No. 1-16263

**MARINE PRODUCTS CORPORATION**

(exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

58-2572419  
(I.R.S. Employer Identification Number)

2801 Buford Highway, Suite 300, Atlanta, Georgia 30329

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code -- (404) 321-7910

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

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common stock, par value \$0.10	MPX	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 23, 2020, Marine Products Corporation had 33,868,624 shares of common stock outstanding.

**Marine Products Corporation**

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**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS  
AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019  
(In thousands)  
(Unaudited)

	September 30, 2020	December 31, 2019
<b>ASSETS</b>		(Note 1)
Cash and cash equivalents	\$ 29,014	\$ 19,804
Accounts receivable, net of allowance for doubtful accounts of \$20 in 2020 and 2019	8,517	6,607
Inventories	42,890	41,553
Income taxes receivable	206	907
Prepaid expenses and other current assets	1,883	2,056
Total current assets	82,510	70,927
Property, plant and equipment, net of accumulated depreciation of \$29,629 in 2020 and \$28,258 in 2019	14,741	14,796
Goodwill	3,308	3,308
Other intangibles, net	465	465
Deferred income taxes	4,181	3,990
Other assets	12,266	11,278
<b>Total assets</b>	<b>\$ 117,471</b>	<b>\$ 104,764</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 9,592	\$ 3,886
Accrued expenses and other liabilities	15,607	13,155
Total current liabilities	25,199	17,041
Pension liabilities	11,289	9,980
Other long-term liabilities	508	531
Total liabilities	36,996	27,552
Common stock	3,387	3,387
Capital in excess of par value	-	-
Retained earnings	79,679	76,573
Accumulated other comprehensive loss	(2,591)	(2,748)
Total stockholders' equity	80,475	77,212
<b>Total liabilities and stockholders' equity</b>	<b>\$ 117,471</b>	<b>\$ 104,764</b>

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

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019  
(In thousands except per share data)  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net sales</b>	<b>\$ 68,778</b>	\$ 72,212	<b>\$ 168,715</b>	\$ 243,961
Cost of goods sold	<u>52,542</u>	56,463	<u>132,541</u>	189,089
Gross profit	<b>16,236</b>	15,749	<b>36,174</b>	54,872
Selling, general and administrative expenses	<u>7,886</u>	6,039	<u>20,896</u>	24,915
Operating income	<b>8,350</b>	9,710	<b>15,278</b>	29,957
Interest income	<u>10</u>	83	<u>86</u>	235
Income before income taxes	<b>8,360</b>	9,793	<b>15,364</b>	30,192
Income tax provision	<u>1,825</u>	1,938	<u>2,914</u>	5,495
<b>Net income</b>	<b><u>\$ 6,535</u></b>	<u>\$ 7,855</u>	<b><u>\$ 12,450</u></b>	<u>\$ 24,697</u>
<b>Earnings per share</b>				
Basic	<u>\$ 0.19</u>	\$ 0.23	<u>\$ 0.37</u>	\$ 0.72
Diluted	<u>\$ 0.19</u>	\$ 0.23	<u>\$ 0.37</u>	\$ 0.72
<b>Dividends paid per share</b>	<u>\$ 0.08</u>	\$ 0.12	<u>\$ 0.28</u>	\$ 0.36

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

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

(In thousands)  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net income</b>	<b>\$ 6,535</b>	<b>\$ 7,855</b>	<b>\$ 12,450</b>	<b>\$ 24,697</b>
Other comprehensive income, net of taxes:				
Pension adjustment	19	16	157	50
Unrealized gain on securities, net of reclassification adjustments	—	—	—	7
<b>Comprehensive income</b>	<b>\$ 6,554</b>	<b>\$ 7,871</b>	<b>\$ 12,607</b>	<b>\$ 24,754</b>

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

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
(In thousands)  
(Unaudited)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, December 31, 2019	33,870	\$ 3,387	\$ —	\$ 76,573	\$ (2,748)	\$ 77,212
Stock issued for stock incentive plans, net	175	18	558	—	—	576
Stock purchased and retired	(73)	(8)	(558)	(489)	—	(1,055)
Net income	—	—	—	4,208	—	4,208
Pension adjustment, net of taxes	—	—	—	—	119	119
Dividends paid	—	—	—	(4,074)	—	(4,074)
Balance, March 31, 2020	33,972	\$ 3,397	\$ —	\$ 76,218	\$ (2,629)	\$ 76,986
Stock issued for stock incentive plans, net	—	—	581	—	—	581
Stock purchased and retired	(3)	—	(581)	552	—	(29)
Net income	—	—	—	1,707	—	1,707
Pension adjustment, net of taxes	—	—	—	—	19	19
Dividends paid	—	—	—	(2,696)	—	(2,696)
Balance, June 30, 2020	33,969	\$ 3,397	\$ —	\$ 75,781	\$ (2,610)	\$ 76,568
Stock issued for stock incentive plans, net	(2)	(1)	1,501	—	—	1,500
Stock purchased and retired	(98)	(9)	(1,501)	79	—	(1,431)
Net income	—	—	—	6,535	—	6,535
Pension adjustment, net of taxes	—	—	—	—	19	19
Dividends paid	—	—	—	(2,716)	—	(2,716)
Balance, September 30, 2020	33,869	\$ 3,387	\$ —	\$ 79,679	\$ (2,591)	\$ 80,475

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

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019  
(In thousands)  
(Unaudited)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, December 31, 2018	34,328	\$ 3,433	\$ —	\$ 73,954	\$ (2,175)	\$ 75,212
Adoption of accounting standard (Note 2)	—	—	—	414	(414)	—
Stock issued for stock incentive plans, net	141	14	524	—	—	538
Stock purchased and retired	(344)	(34)	(524)	(4,338)	—	(4,896)
Net income	—	—	—	7,469	—	7,469
Pension adjustment, net of taxes	—	—	—	—	17	17
Unrealized gain on securities, net of taxes and reclassification adjustment	—	—	—	—	7	7
Dividends paid	—	—	—	(4,117)	—	(4,117)
Balance, March 31, 2019	34,125	\$ 3,413	\$ —	\$ 73,382	\$ (2,565)	\$ 74,230
Stock issued for stock incentive plans, net	(11)	(1)	545	—	—	544
Stock purchased and retired	(69)	(8)	(545)	(443)	—	(996)
Net income	—	—	—	9,373	—	9,373
Pension adjustment, net of taxes	—	—	—	—	17	17
Dividends paid	—	—	—	(4,092)	—	(4,092)
Balance, June 30, 2019	34,045	\$ 3,404	\$ —	\$ 78,220	\$ (2,548)	\$ 79,076
Stock issued for stock incentive plans, net	—	—	544	—	—	544
Stock purchased and retired	(85)	(8)	(544)	(719)	—	(1,271)
Net income	—	—	—	7,855	—	7,855
Pension adjustment, net of taxes	—	—	—	—	16	16
Dividends paid	—	—	—	(4,083)	—	(4,083)
Balance, September 30, 2019	33,960	\$ 3,396	\$ —	\$ 81,273	\$ (2,532)	\$ 82,137

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

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019  
(In thousands)  
(Unaudited)

	Nine months ended September 30,	
	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 12,450	\$ 24,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,509	1,556
Accretion of discount related to marketable securities, net	—	(5)
Stock-based compensation expense	2,657	1,626
Gain on sale of assets	(30)	—
Deferred income tax benefit	(234)	(1,074)
(Increase) decrease in assets:		
Accounts receivable	(1,910)	(11,292)
Inventories	(1,337)	1,757
Prepaid expenses and other current assets	173	254
Income taxes receivable	701	452
Other non-current assets	(788)	(918)
Increase (decrease) in liabilities:		
Accounts payable	5,706	4,951
Income taxes payable	737	446
Accrued expenses and other liabilities	1,715	3,502
Other long-term liabilities	1,286	2,122
<b>Net cash provided by operating activities</b>	<b>22,635</b>	<b>28,074</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,458)	(2,013)
Proceed from sale of assets	34	—
Purchases of marketable securities	—	(299)
Sales of marketable securities	—	7,530
Maturities of marketable securities	—	448
<b>Net cash (used for) provided by investing activities</b>	<b>(1,424)</b>	<b>5,666</b>
<b>FINANCING ACTIVITIES</b>		
Payment of dividends	(9,486)	(12,292)
Cash paid for common stock purchased and retired	(2,515)	(7,163)
<b>Net cash used for financing activities</b>	<b>(12,001)</b>	<b>(19,455)</b>
Net increase in cash and cash equivalents	9,210	14,285
Cash and cash equivalents at beginning of period	19,804	8,745
<b>Cash and cash equivalents at end of period</b>	<b>\$ 29,014</b>	<b>\$ 23,030</b>
<b>Supplemental information:</b>		
Income tax payments, net	\$ 1,738	\$ 5,710

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

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. GENERAL

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (all of which consisted of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

The consolidated balance sheet at December 31, 2019 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

At the end of the first quarter of 2020, the Company suspended manufacturing operations for five weeks in response to concerns related to the COVID-19 pandemic. We resumed production during the second quarter at a slightly higher production rate than our production rate during the first quarter of 2020, although production increases have been constrained by employment availability and supply chain restrictions caused by the pandemic. This operational suspension negatively impacted our net sales and profits during the second quarter of 2020. At the end of the third quarter of 2020, the Company's order backlog was at its highest level in several years, and dealer inventories were significantly lower than in previous periods.

For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report of Marine Products Corporation ("Marine Products," the "Company" or "MPC") on Form 10-K for the year ended December 31, 2019.

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

2. RECENT ACCOUNTING STANDARDS

***Recently Adopted Accounting Standards:***

**ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*** The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The ASU introduced a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses and additional disclosures related to credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for recognition. The expected credit losses are adjusted each period for changes in expected lifetime. The Company adopted the provisions of the standard in the first quarter of 2020 and the adoption did not have a material impact on its consolidated financial statements.

**ASU No. 2017-04—*Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.*** To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The Company adopted these provisions in the first quarter of 2020, on a prospective basis.

**ASU No. 2018-15—*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.*** The amendments reduce

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

the complexity for the accounting for costs of implementing a cloud computing service arrangement and align the requirements for capitalizing implementation costs that are incurred in a hosting arrangement that is a service contract with the costs incurred to develop or obtain internal-use software. The Company adopted these provisions in the first quarter of 2020 and the adoption did not have a material impact on its consolidated financial statements.

*Recently Issued Accounting Standards Not Yet Adopted:*

**ASU No. 2019-12 — Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.** The amendments in this ASU simplify the accounting for income taxes by removing the exceptions to the incremental approach for intra-period tax allocation in certain situations, requirement to recognize a deferred tax liability for a change in the status of a foreign investment, and the general methodology for computing income taxes in an interim period when year-to-date loss exceeds the anticipated loss for the year. The amendments also simplify the accounting for income taxes with regard to franchise tax, evaluation of step up in the tax basis of goodwill in certain business combinations, allocating current and deferred tax expense to legal entities that are not subject to tax and enacted change in tax laws or rates. The amendments are effective beginning in the first quarter of 2021 and the Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

3. NET SALES

*Accounting Policy:*

MPC's contract revenues are generated principally from selling: (1) fiberglass motorized boats and accessories and (2) parts to independent dealers. Revenue is recognized when obligations under the terms of a contract with our customer are satisfied. Satisfaction of contract terms occur with the transfer of title of our boats, accessories, and parts to our dealers. Net sales are measured as the amount of consideration we expect to receive in exchange for transferring the goods to the dealer. The amount of consideration we expect to receive consists of the sales price adjusted for dealer incentives. The expected costs associated with our base warranties continue to be recognized as expense when the products are sold as they are deemed to be assurance-type warranties (see Note 7). Incidental promotional items that are immaterial in the context of the contract are recognized as expense. Fees charged to customers for shipping and handling are included in net sales in the accompanying consolidated statements of operations and the related costs incurred by the Company are included in cost of goods sold.

*Nature of goods:*

MPC's performance obligations within its contracts consists of: (1) boats and accessories and (2) parts. The Company transfers control and recognizes revenue on the satisfaction of its performance obligations (point in time) as follows:

- Boats and accessories (domestic sales) – upon delivery and acceptance by the dealer
- Boats and accessories (international sales) – upon delivery to shipping port
- Parts – upon shipment/delivery to carrier

*Payment terms:*

For most domestic customers, MPC manufactures and delivers boats and accessories and parts ahead of payment - i.e., MPC has fulfilled its performance obligations prior to submitting an invoice to the dealer. MPC invoices the customer when the products are delivered and receives the related compensation, typically within seven to ten business days after invoicing. For some domestic customers and all international customers, MPC requires payment prior to transferring control of the goods. These amounts are classified as deferred revenue and recognized when control has transferred, which generally occurs within three months of receiving the payment.

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

When the Company enters into contracts with its customers, it generally expects there to be no significant timing difference between the date the goods have been delivered to the customer (satisfaction of the performance obligation) and the date cash consideration is received. Accordingly, there is no financing component to the Company's arrangements with its customers.

*Significant judgments:*

Determining the transaction price

The transaction price for MPC's boats and accessories is the invoice price adjusted for dealer incentives. The Company utilizes the expected value method to estimate the variable consideration related to dealer incentives. Key inputs and assumptions in determining variable consideration includes:

- Inputs: Current model year boat sales, total potential program incentive percentage, prior model year results of dealer incentive activity (i.e., incentive earned as a percentage of total incentive potential).
- Assumption: Current model year incentive activity will closely reflect prior model year actual results, adjusted as necessary for dealer purchasing trends or economic factors.

Other:

Our contracts with dealers do not provide them with a right of return. Accordingly, we do not have any obligations recorded for returns or refunds.

*Disaggregation of revenues:*

The following table disaggregates our sales by major source (in thousands):

(in thousands)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Boats and accessories	\$ 67,127	\$ 70,927	\$ 165,001	\$ 240,296
Parts	1,651	1,285	3,714	3,665
Net sales	\$ 68,778	\$ 72,212	\$ 168,715	\$ 243,961

The following table disaggregates our revenues between domestic and international (in thousands):

(in thousands)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Domestic	\$ 66,621	\$ 69,136	\$ 161,172	\$ 229,266
International	2,157	3,076	7,543	14,695
Net sales	\$ 68,778	\$ 72,212	\$ 168,715	\$ 243,961

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Timing of revenue recognition for each of the periods presented is shown below:

(in thousands)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Products transferred at a point in time	\$ 68,778	\$ 72,212	\$ 168,715	\$ 243,961
Products transferred over time	—	—	—	—
Net sales	\$ 68,778	\$ 72,212	\$ 168,715	\$ 243,961

*Contract balances:*

Amounts received from international and certain domestic dealers toward the purchase of boats are classified as deferred revenue and are included in accrued expenses and other liabilities on the Consolidated Balance Sheets.

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019	December 31, 2018
Deferred revenue	\$ 1,119	\$ 295	\$ 320	\$ 496

Substantially all of the amounts of deferred revenue disclosed above were recognized as sales during the immediately following quarters, respectively, when control transferred.

4. 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. In addition, the Company has periodically issued share-based payment awards that contain non-forfeitable rights to dividends and are therefore considered participating securities. Restricted shares of common stock (participating securities) outstanding and a reconciliation of weighted average shares outstanding is as follows:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income available for stockholders:	\$ 6,535	\$ 7,855	\$ 12,450	\$ 24,697
Less: Adjustments for earnings attributable to participating securities	(139)	(187)	(273)	(594)
Net income used in calculating earnings per share	\$ 6,396	\$ 7,668	\$ 12,177	\$ 24,103
Weighted average shares outstanding (including participating securities)	33,928	34,001	33,946	34,111
Adjustment for participating securities	(715)	(817)	(752)	(837)
Shares used in calculating basic and diluted earnings per share	33,213	33,184	33,194	33,274

5. STOCK-BASED COMPENSATION

The Company reserved 3,000,000 shares of common stock under the 2014 Stock Incentive Plan with a term of ten years expiring in April 2024. This plan provides for the issuance of various forms of stock incentives, including among others, incentive and non-qualified stock options and restricted shares. As of September 30, 2020, there were approximately 1,569,700 shares available for grant.

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

Stock-based compensation for the three and nine months ended September 30, 2020 and 2019 were as follows:

*Restricted Stock*

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Pre – tax cost	\$ 1,500	\$ 544	\$ 2,657	\$ 1,626
After tax cost	\$ 1,170	\$ 424	\$ 2,072	\$ 1,268

The following is a summary of the changes in non-vested restricted shares for the nine months ended September 30, 2020:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at December 31, 2019	815,540	\$ 11.29
Granted	179,000	4.59
Vested	(310,520)	9.36
Forfeited	(5,800)	9.50
Non-vested shares at September 30, 2020	678,220	\$ 10.43

The total fair value of shares vested was approximately \$4,431,000 during the nine months ended September 30, 2020 and approximately \$3,818,000 during the nine months ended September 30, 2019.

*Other Information*

As of September 30, 2020, total unrecognized compensation cost related to non-vested restricted shares was approximately \$7,415,000. This cost is expected to be recognized over a weighted-average period of 3.3 years.

For the nine months ended September 30, 2020, approximately \$345,000 of excess tax benefit for stock-based compensation awards has been recorded as a discrete tax adjustment and classified within operating activities in the consolidated statements of cash flows compared to approximately \$456,000 for the nine months ended September 30, 2019.

6. WARRANTY COSTS AND OTHER CONTINGENCIES

*Warranty Costs:*

For its Chaparral and Robalo products, Marine Products provides a lifetime limited structural hull warranty and a transferable one-year limited warranty to the original owner. Chaparral also includes a five-year limited structural deck warranty. Warranties for additional items are provided for periods of one to five years and are not transferable. Additionally, as it relates to the second subsequent owner, a five-year transferable hull warranty and the remainder of the original one-year limited warranty on certain components are available. The five-year transferable hull warranty terminates five years after the date of the original retail purchase. Claim costs related to components are generally absorbed by the original component manufacturer.

The manufacturers of the engines, generators, and navigation electronics included on our boats provide and administer their own warranties for various lengths of time.

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

An analysis of the warranty accruals for the nine months ended September 30, 2020 and 2019 is as follows:

<i>(in thousands)</i>	<b>2020</b>	2019
Balance at beginning of period	\$ 5,410	\$ 5,607
Less: Payments made during the period	<b>(2,045)</b>	(3,134)
Add: Warranty provision for the period	<b>2,150</b>	3,135
Changes to warranty provision for prior periods	<b>62</b>	93
Balance at September 30	<u><u>\$ 5,577</u></u>	<u><u>\$ 5,701</u></u>

The warranty accruals are reflected in accrued expenses and other liabilities on the consolidated balance sheets.

*Repurchase Obligations:*

The Company is a party to various agreements with third party lenders that provide floor plan financing to qualifying dealers whereby the Company guarantees varying amounts of debt on boats in dealer inventory. The Company's obligation under these guarantees becomes effective in the case of a default under the financing arrangement between the dealer and the third-party lender. The agreements provide for the return of repossessed boats to the Company in new and unused condition subject to normal wear and tear as defined, in exchange for the Company's assumption of specified percentages of the debt obligation on those boats, up to certain contractually determined dollar limits by the lenders. The Company had no material repurchases during the nine months ended September 30, 2020 and repurchases of inventory for \$3.4 million under contractual agreements during the third quarter of 2019.

Management continues to monitor the risk of defaults and resulting repurchase obligations based in part on information provided by third-party floor plan lenders and will adjust the guarantee liability at the end of each reporting period based on information reasonably available at that time.

The Company currently has an agreement with one of the floor plan lenders whereby the contractual repurchase limit is based on a specified percentage of the amount of the average net receivables financed by the floor plan lender for our dealers less repurchases during the prior 12 month period, which was a net \$12.2 million as of September 30, 2020. The Company has contractual repurchase agreements with additional lenders with an aggregate maximum repurchase obligation of \$1.9 million with various expiration and cancellation terms of less than one year, for an aggregate repurchase obligation with all floor plan financing institutions of \$14.1 million as of September 30, 2020.

7. BUSINESS SEGMENT INFORMATION

The Company has only one reportable segment, its powerboat manufacturing business; therefore, the majority of segment-related disclosures 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 product model.

8. INVENTORIES

Inventories consist of the following:

<i>(in thousands)</i>	<b>September 30, 2020</b>	December 31, 2019
Raw materials and supplies	\$ 25,478	\$ 24,993
Work in process	<b>10,734</b>	7,731
Finished goods	<b>6,678</b>	8,829
Total inventories	<u><u>\$ 42,890</u></u>	<u><u>\$ 41,553</u></u>

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

9. INCOME TAXES

The Company determines its periodic income tax provision based upon the current period income and the annual estimated tax rate for the Company adjusted for discrete items including tax credits and changes to prior year estimates. The estimated tax rate is revised, if necessary, as of the end of each successive interim period during the fiscal year to the Company's current annual estimated tax rate.

Income tax provision for the third quarter of 2020 reflects an effective tax rate of 21.8 percent, compared to an effective rate of 19.8 percent for the comparable period in the prior year. For the nine months ended September 30, 2020, the effective tax rate was 19.0 percent compared to 18.2 percent for the comparable period in the prior year. The effective tax rates in 2020 and 2019 include the effect of beneficial permanent differences including discrete adjustments related to vesting of restricted stock and the associated dividends. The increase in the 2020 effective tax rate is primarily due to a detrimental provision to return discrete adjustment in the third quarter of 2020 compared to a beneficial discrete adjustment in the same period of 2019.

The Coronavirus Aid, Relief and Economic Security (CARES) Act, enacted into law on March 27, 2020, has been evaluated in the Company's tax provision and there is no impact to the tax provision at this time. The impact of the CARES Act will continue to be evaluated throughout 2020.

10. EMPLOYEE BENEFIT PLANS

The Company participates in a multiple employer pension plan. The following represents the net periodic cost (benefit) and related components for the plan for the three and nine months ended September 30, 2020 and 2019.

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest cost	\$ 58	\$ 64	\$ 174	\$ 192
Expected return on plan assets	(73)	(117)	(219)	(352)
Amortization of net losses	24	22	72	66
Net periodic cost (benefit)	\$ 9	\$ (31)	\$ 27	\$ (94)

The Company made a contribution of \$550,000 to this plan during the nine months ended September 30, 2020; and no contributions were made during the nine months ended September 30, 2019.

In October 2020, the Company amended its retirement income plan to add a limited lump-sum payment window for vested terminated participants who had terminated employment before July 1, 2020 and for active employees who will have reached age 59 ½ by December 1, 2020, with a vested balance. The participants could elect to receive their vested balance immediately as a lump-sum or a monthly annuity payment. The lump-sum payment window offering is scheduled to end during the fourth quarter of 2020. Plan assets will be utilized to fund the participants' election and is expected to trigger settlement accounting, which will be recognized when the distributions are made in December 2020. The settlement charges represent the accelerated recognition of actuarial losses held in accumulated other comprehensive income.

The Company permits selected highly compensated employees to defer a portion of their compensation into a non-qualified Supplemental Executive Retirement Plan ("SERP"). The Company maintains certain securities in the SERP that have been classified as trading and are stated at fair value totaling approximately \$6,979,000 as of September 30, 2020 and \$6,716,000 as of December 31, 2019. The SERP assets are reported in other non-current assets on the consolidated balance sheets and changes to the fair value of the assets are reported in selling, general and administrative expenses in the consolidated statements of operations.

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Trading losses related to the SERP assets totaled approximately \$263,000 during the nine months ended September 30, 2020, compared to trading gains of approximately \$738,000 during the nine months ended September 30, 2019. The SERP liability includes participant deferrals net of distributions and is recorded on the consolidated balance sheets in long-term pension liabilities with any change in the fair value of the liabilities recorded as compensation cost within selling, general and administrative expenses in the consolidated statements of operations.

**11. FAIR VALUE MEASUREMENTS**

The various inputs used to measure assets at fair value establish a hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

1. Level 1 – Quoted market prices in active markets for identical assets or liabilities.
2. Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
3. Level 3 – Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the balance sheet as of September 30, 2020 and December 31, 2019:

<b>Fair Value Measurements at September 30, 2020 with:</b>				
<i>(in thousands)</i>	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Investments measured at Net Asset Value - Trading securities	\$ 6,979	\$ —	\$ —	\$ —

  

<b>Fair Value Measurements at December 31, 2019 with:</b>				
<i>(in thousands)</i>	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Investments measured at Net Asset Value - Trading securities	\$ 6,716	\$ —	\$ —	\$ —

The trading securities are comprised of SERP assets, as described in Note 10, and are recorded primarily at their net cash surrender values calculated using their net asset values, which approximate fair value, as provided by the issuing insurance or investment company. The carrying amount of other financial instruments reported in the consolidated balance sheets for current assets and current liabilities approximate their fair values because of the short-term nature of these instruments.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists of the following:

<i>(in thousands)</i>	<b>Pension Adjustment</b>	<b>Unrealized Loss On Securities</b>	<b>Total</b>
Balance at December 31, 2019	\$ (2,748)	\$ —	\$ (2,748)
Change during the period ended September 30, 2020:			
Before-tax amount	128	—	128
Tax provision	(28)	—	(28)
Reclassification adjustment, net of taxes			
Amortization of net loss <sup>(1)</sup>	57	—	57
Total activity for the period	157	—	157
Balance at September 30, 2020	<u>\$ (2,591)</u>	<u>\$ —</u>	<u>\$ (2,591)</u>

(1) Reported as part of selling, general and administrative expenses.

<i>(in thousands)</i>	<b>Pension Adjustment</b>	<b>Unrealized Loss On Securities</b>	<b>Total</b>
Balance at December 31, 2018	\$ (2,178)	\$ 3	\$ (2,175)
Change during the period ended September 30, 2019:			
Adoption of accounting standard (Note 2)	(404)	(10)	(414)
Before-tax amount	—	13	13
Tax provision	—	(3)	(3)
Reclassification adjustment, net of taxes			
Amortization of net loss <sup>(1)</sup>	50	—	50
Net realized gain <sup>(2)</sup>	—	(3)	(3)
Total activity for the period	50	(3)	47
Balance at September 30, 2019	<u>\$ (2,532)</u>	<u>\$ —</u>	<u>\$ (2,532)</u>

(1) Reported as part of selling, general and administrative expenses.

(2) Reported as part of interest income.

13. SUBSEQUENT EVENT

On October 27, 2020, the Board of Directors declared a regular quarterly cash dividend of \$0.08 per share and a special year-end cash dividend of \$0.04 per share. Both dividends are payable December 10, 2020 to common stockholders of record at the close of business November 10, 2020.

## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. Many of these dealers finance their inventory through third-party floorplan lenders, who pay Marine Products generally within seven to ten 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, 2019 is incorporated herein by reference. There have been no significant changes in the strategies since year-end.

In executing these strategies and attempting to optimize our financial returns, management closely monitors dealer orders and inventories, the production mix of various models, and indications of near term demand such as consumer confidence, interest rates, 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 historical and forecasted financial results, market share, unit sales of our products, average selling price per boat, and gross profit margins, among others, as indicators of the success of our strategies. Our 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.

At the end of the first quarter of 2020, the Company suspended manufacturing operations for five weeks in response to concerns related to the COVID-19 pandemic. We resumed production during the second quarter of 2020 at a slightly higher production rate than our production rate during the first quarter of 2020. This operational suspension negatively impacted our net sales and profits during the second quarter of 2020. At the end of the third quarter, the Company's order backlog remains at its highest level in several years, and dealer inventories were significantly lower than in previous periods.

Our net sales of \$68.8 million were 4.8 percent lower during the third quarter of 2020 compared to the third quarter of 2019 primarily due to a 10.4 percent decrease in number of units sold partially offset by an increase in average selling price per boat. Unit sales declined in most product categories during the third quarter of 2020 in comparison to the same period of the prior year. Average selling price per boat during the third quarter of 2020 increased by 7.8 percent due to a favorable model mix which included larger Chaparral Surf models and Robalo sport fishing boats.

Operating income of \$8.4 million decreased 14.0 percent during the third quarter of 2020 compared to the same period in the prior year primarily due to higher selling, general and administrative expenses. Selling, general and administrative expenses increased 30.6 percent during the third quarter of 2020 as compared to the same period in the prior year primarily due to a lower research and development state tax credit, as well as an increase in deferred compensation expense associated with the accelerated vesting of restricted stock due to the death of the Company's Chairman in the third quarter of 2020. Dealer inventory in units as of September 30, 2020 was significantly lower than at the end of the second quarter of 2020 and the third quarter of 2019.

### OUTLOOK

The discussion of the outlook for 2020 is incorporated herein by reference from the Company's annual report on Form 10-K for the fiscal year ended December 31, 2019.

We believe that retail demand for new recreational boats during 2020 will be higher than demand in 2019. Although retail demand in the first quarter of 2020 was lower than in the prior year, demand increased in the second and third quarters of 2020 due to the impact on consumer preferences caused by the COVID-19 pandemic which began late in the first quarter of 2020. This higher demand has continued beyond the traditional retail selling season for recreational boats, so we believe that fourth quarter of 2020 retail sales will be higher than the comparable period in 2019 as well. Although most recreational boat and supplier manufacturing operations suspended operations during the second quarter of 2020 because of concerns regarding the COVID-19 pandemic, boat dealers were able to satisfy demand by selling their existing inventory. The inventory of some boat dealers was depleted during the second and third

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quarters of 2020, which may limit the availability of new recreational boats for purchase during the fourth quarter of 2020 and the first quarter of 2021.

Considering the current trends in consumer preferences, the Company believes that recreational boating continues to appeal to U.S. consumers. For example, the Company noted that retail sales among several of its dealers improved significantly at the end of the first quarter. The Company believes that this sales increase was caused by consumers leaving urban areas to spend time in vacation homes near recreational bodies of water. Consumers who have temporarily moved to such areas may view recreational boating as a safe activity in the current environment. In addition, real estate values have remained high during the pandemic, which is a positive. Furthermore, the price of oil has declined significantly, which should lead to lower retail fuel prices during the near term, which is a positive catalyst for recreational boating.

Although industry wide retail boat sales remain lower than they were prior to the 2008 financial crisis, retail boat sales increased each year between 2012 and 2018, though they declined slightly in 2019. Fluctuations in fuel prices can impact our industry, although they were relatively stable in 2019 and we do not believe that they have recently impacted sales. In general, the overall cost of boat ownership has increased, especially in the stern drive recreational boat market segment, which comprised approximately 31 percent of the Company's unit sales during the nine months ended September 30, 2020. The higher cost of boat ownership can discourage consumers from purchasing recreational boats. For years, Marine Products and other boat manufacturers have been improving their customer service capabilities, marketing strategies and sales promotions in order to attract more consumers to recreational boating as well as improve consumers' boating experiences. The Company provides financial incentives to its dealers for receiving favorable customer satisfaction surveys. In addition, the recreational boating industry conducts a promotional program which involves advertising and consumer targeting efforts, as well as other activities designed to increase the potential consumer market for pleasure boats. Many manufacturers, including Marine Products, participate in this program. Management believes that these efforts have incrementally benefited the industry and Marine Products. As in past years, Marine Products enhanced its selection of models for the 2021 model year which began on July 1, 2020. For the new model year, we continue to emphasize our larger Robalo center console models. In addition, we have introduced two larger Chaparral SSX and Surf Series models for 2021 model year. We believe that these boat models will appeal to our customer base and dealer network. We plan to continue to develop and produce additional new products for subsequent model years.

Our financial results will depend on a number of factors, including health and economic recover from the pandemic, interest rates, consumer confidence, the availability of credit to our dealers and consumers, fuel costs, the continued acceptance of our new products in the recreational boating market, our ability to compete in the competitive pleasure boating industry, the availability and cost of labor and certain of our raw materials and key components.

**RESULTS OF OPERATIONS**

Key operating and financial statistics for the three and nine months ended September 30, 2020 and 2019 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Total number of boats sold	1,044	1,165	2,640	4,004
Average gross selling price per boat ( <i>in thousands</i> )	\$ 57.0	\$ 52.9	\$ 55.0	\$ 52.8
Net sales ( <i>in thousands</i> )	\$ 68,778	\$ 72,212	\$ 168,715	\$ 243,961
Percentage of cost of goods sold to net sales	76.4 %	78.2 %	78.6 %	77.5 %
Gross profit margin percent	23.6 %	21.8 %	21.4 %	22.5 %
Percentage of selling, general and administrative expenses to net sales	11.5 %	8.4 %	12.4 %	10.2 %
Operating income ( <i>in thousands</i> )	\$ 8,350	\$ 9,710	\$ 15,278	\$ 29,957
Warranty expense ( <i>in thousands</i> )	\$ 899	\$ 944	\$ 2,212	\$ 3,228

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THREE MONTHS ENDED SEPTEMBER 30, 2020 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2019

*Net sales* for the three months ended September 30, 2020 decreased \$3.4 million or 4.8 percent compared to the same period in 2019. The change in net sales during the quarter compared to the prior year was due primarily to a 10.4 percent decrease in the number of units sold partially offset by a 7.8 percent increase in the average gross selling price per boat. Unit sales declined in most product categories during the third quarter of 2020 compared to the prior year. Average selling price per boat during the third quarter of 2020 compared to the prior year increased due to a favorable model mix which included larger Chaparral Surf models and Robalo sport fishing boats. In the third quarter of 2020, net sales outside of the United States accounted for 3.1 percent of net sales compared to 4.3 percent of net sales in the third quarter of 2019. International sales remained low due to continued tariffs imposed on boat imports into Mexico and the European Union. Domestic net sales decreased 3.6 percent to \$66.6 million and international sales decreased 29.9 percent to \$2.2 million compared to the third quarter of the prior year.

*Cost of goods sold* for the three months ended September 30, 2020 was \$52.5 million compared to \$56.5 million for the comparable period in 2019, a decrease of \$3.9 million or 6.9 percent. Cost of goods sold as a percentage of net sales decreased to 76.4 percent of net sales for the three months ended September 30, 2020 from 78.2 percent for the comparable period in 2019, primarily due to a favorable model mix consisting of larger boats.

*Selling, general and administrative expenses* for the three months ended September 30, 2020 were \$7.9 million compared to \$6.0 million for the comparable period in 2019, an increase of \$1.8 million or 30.6 percent. This increase was primarily due to a research and development state tax credit that was \$1.2 million lower during the third quarter of 2020 as compared to the same period of the prior year, as well as an increase of \$963 thousand in deferred compensation expense associated with the accelerated vesting of restricted stock due to the death of the Company's Chairman in the third quarter of 2020. Selling, general and administrative expenses as a percentage of net sales were 11.5 percent in the third quarter of 2020 compared to 8.4 percent in the third quarter of 2019.

*Operating income* for the three months ended September 30, 2020 decreased \$1.4 million or 14.0 percent compared to the same period in 2019 primarily due to lower net sales coupled with an increase in selling, general and administrative expenses.

*Interest income* for the three months ended September 30, 2020 decreased \$73 thousand or 88.0 percent compared to the prior year. Marine Products generates interest income primarily from investments in money market funds. The decrease was primarily due to a lower average balance of cash and cash equivalents coupled with a lower percentage yield.

*Income tax provision* for the third quarter of 2020 reflects an effective tax rate of 21.8 percent compared to an effective tax rate of 19.8 percent for the comparable period in the prior year. The effective tax rates in 2020 and 2019 include the effect of beneficial permanent differences including discrete adjustments related to vesting of restricted stock and the associated dividends. The increase in the 2020 effective tax rate is primarily due to a detrimental provision to return discrete adjustment in the third quarter of 2020 compared to a beneficial discrete adjustment in the same period of 2019.

NINE MONTHS ENDED SEPTEMBER 30, 2020 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2019

*Net sales* for the nine months ended September 30, 2020 decreased \$75.2 million or 30.8 percent compared to the same period in 2019. The change in net sales during the nine months ended September 30, 2020 compared to the prior year was due primarily to a 34.1 percent decrease in the number of units sold partially offset by a 4.2 percent increase in the average gross selling price per boat. The decrease in unit sales was primarily due to a decline in every product category with the exception of our Chaparral OSX Luxury Sportboats. Unit sales declined in every product category due to the temporary suspension of manufacturing operations for five weeks during the second quarter of 2020. In the nine months ended September 30, 2020, net sales outside of the United States accounted for 4.5 percent of net sales compared to 6.0 percent of net sales in the nine months ended September 30, 2019. International sales remained low due to continued tariffs imposed on boat imports into Mexico and the European Union. Domestic net sales decreased 29.7 percent to \$161.2 million and international sales of \$7.5 million decreased 48.7 percent for the nine months ended September 30, 2020 compared to the same period of the prior year.

*Cost of goods sold* for the nine months ended September 30, 2020 was \$132.5 million compared to \$189.1 million for the comparable period in 2019, a decrease of \$56.5 million or 29.9 percent. Cost of goods sold as a percentage of net sales increased to 78.6 percent of net sales for the nine months ended September 30, 2020 from 77.5 percent for the comparable period in 2019, primarily due to

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manufacturing cost inefficiencies caused by lower production resulting from the temporary operational suspension during the second quarter.

*Selling, general and administrative expenses* for the nine months ended September 30, 2020 were \$20.9 million compared to \$24.9 million for the comparable period in 2019, a decrease of \$4.0 million or 16.1 percent. This decrease was primarily due to costs that vary with sales and profitability, such as incentive compensation and warranty expense during the nine months ended September 30, 2020 as compared to the same period in the prior year. This decrease was partially offset by a research and development state tax credit that was \$1.2 million lower during the nine months ended September 30, 2020 as compared to the same period of the prior year, as well as an increase of \$963 thousand in deferred compensation expense associated with the accelerated vesting of restricted stock due to the death of the Company's Chairman in the third quarter of 2020. Selling, general and administrative expenses as a percentage of net sales were 12.4 percent in the nine months ended September 30, 2020 compared to 10.2 percent in the nine months ended September 30, 2019.

*Operating income* for the nine months ended September 30, 2020 decreased \$14.7 million or 49.0 percent compared to the same period in 2019 primarily due to a decrease in gross profit partially offset by a decrease in selling, general and administrative expenses.

*Interest income* for the nine months ended September 30, 2020 decreased \$149 thousand or 63.4 percent compared to the prior year. Marine Products generates interest income primarily from investments in money market funds. The decrease was primarily due to a lower percentage yield partially offset by a higher average balance of cash and cash equivalents.

*Income tax provision* for the nine months ended September 30, 2020 reflects an effective tax rate of 19.0 percent compared to an effective tax rate of 18.2 percent for the comparable period in the prior year. The effective tax rates in 2020 and 2019 include the effect of beneficial permanent differences including discrete adjustments related to vesting of restricted stock and the associated dividends. The increase in the 2020 effective tax rate is primarily due to a detrimental provision to return discrete adjustment in the third quarter of 2020 compared to a beneficial discrete adjustment in the same period of 2019.

**LIQUIDITY AND CAPITAL RESOURCES**

*Cash Flows*

The Company's cash and cash equivalents at September 30, 2020 were \$29.0 million compared to \$19.8 million at December 31, 2019.

The following table sets forth the cash flows for the applicable periods:

<i>(in thousands)</i>	<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Net cash provided by operating activities	\$ 22,635	\$ 28,074
Net cash (used for) provided by investing activities	(1,424)	5,666
Net cash used for financing activities	\$ (12,001)	\$ (19,455)

Cash provided by operating activities for the nine months ended September 30, 2020 decreased \$5.4 million compared to the same period in 2019. This decrease is primarily due to a decrease in net income partially offset by a favorable change in working capital.

The major components of the net favorable change in working capital were as follows: an unfavorable change of \$1.9 million in accounts receivable due to lower revenues and the timing of receipts in comparison to the prior year; an unfavorable change of \$1.3 million in inventories primarily due to the timing of shipments of finished boats and receipts of raw materials and key components; and a \$5.7 million favorable change in accounts payable due to the timing of payments; coupled with a favorable change of \$2.5 million in other accrued expenses.

Cash used for investing activities for the nine months ended September 30, 2020 was \$1.4 million compared to \$5.7 million of cash provided by investing activities for the same period in 2019. The unfavorable change in cash used for investing activities is primarily

## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

due to net sales of marketable securities during the first quarter of 2019 resulting from a change in investment strategy, partially offset by a decrease in capital expenditures during the nine months ended September 30, 2020 in comparison to the same period of the prior year.

Cash used for financing activities for the nine months ended September 30, 2020 decreased \$7.5 million compared to the nine months ended September 30, 2019 primarily due to a reduction in the cost of open market share repurchases coupled with lower dividends paid to common shareholders in the nine months ended September 30, 2020 compared to the same period of the prior year.

### *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 generated by operations will provide sufficient capital to meet the Company's requirements for at least the next twelve months. 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.

### *Cash Requirements*

The Company currently expects that capital expenditures in 2020 will be approximately \$2.1 million, of which \$1.6 million has been spent through September 30, 2020.

The Company participates in a multiple employer Retirement Income Plan, sponsored by RPC, Inc. ("RPC"). The Company made a cash contribution of \$550 thousand to this plan during the third quarter of 2020 and does not expect to make any additional contributions for the remainder of 2020.

The Company has repurchased an aggregate total of 6,679,572 shares in the open market under the Company stock repurchase program, which began in 2002. As of September 30, 2020, there are 1,570,428 shares that remain available for repurchase under the current authorization. There were 97,940 shares repurchased under this program during the third quarter of 2020.

On October 27, 2020, the Board of Directors declared a regular quarterly cash dividend of \$0.08 per share and a special year-end cash dividend of \$0.04 per share. Both dividends are payable December 10, 2020 to common stockholders of record at the close of business November 10, 2020. The Company expects to continue to pay cash dividends to common stockholders, subject to industry conditions and Marine Product's earnings, financial condition, and other relevant factors.

### 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 third-party floor plan lenders whereby the Company guarantees varying amounts of debt for qualifying dealers on boats in inventory. The Company's obligation under these guarantees becomes effective in the case of a default under the financing arrangement between the dealer and the third-party lender. The agreements provide for the return of all repossessed boats to the Company in a new and unused condition as defined, in exchange for the Company's assumption of specified percentages of the debt obligation on those boats, up to certain contractually determined dollar limits which vary by lender. The Company had no material repurchases of dealer inventory during the nine months ended September 30, 2020 and repurchases totaling \$3.4 million under contractual agreements during the nine months ended September 30, 2019.

Management continues to monitor the risk of defaults and resulting repurchase obligations based in part on information provided by the third-party floor plan lenders and will adjust the guarantee liability at the end of each reporting period based on information reasonably available at that time.

The Company currently has an agreement with one of the floor plan lenders whereby the contractual repurchase limit is based on a specified percentage of the amount of the average net receivables financed by the floor plan lender for our dealers less repurchases during the prior 12 month period, which was a net \$12.2 million as of September 30, 2020. The Company has contractual repurchase agreements with additional lenders with an aggregate maximum repurchase obligation of approximately \$1.9 million with various

## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

expiration and cancellation terms of less than one year, for an aggregate repurchase obligation with all financing institutions of approximately \$14.1 million as of September 30, 2020.

### 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. RPC charged the Company for its allocable share of administrative costs incurred for services rendered on behalf of Marine Products totaling approximately \$646 thousand for the nine months ended September 30, 2020 and approximately \$656 thousand for the nine months ended September 30, 2019.

### 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, 2019. There have been no significant changes in the critical accounting policies since year-end.

### IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 of the Consolidated Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and expected effects on results of operations and financial condition, if known.

### SEASONALITY

Marine Products' quarterly operating results are affected by weather and general economic conditions. Quarterly operating results for the second quarter have historically recorded the highest sales volume for the year because this corresponds with the highest retail sales volume period. The results for any quarter are not necessarily indicative of results to be expected in any future period.

### INFLATION

The market prices of certain materials used in manufacturing the Company's products, especially resins that are made with hydrocarbon feedstocks, copper and steel, have at certain periods been volatile. During the first and second quarters of 2020, the prices of many of these commodities declined due to the global economic slowdown caused by the COVID-19 pandemic. During the third quarter of 2020, however, the prices of commodities such as copper and stainless steel increased, although the price of oil remained low. The Company also purchases components of which there are a limited number of suppliers, some of whom temporarily suspended their manufacturing operations due to the COVID-19 pandemic. It is possible that the cost of these components will increase as demand from recreational boat manufacturers increases. These higher component prices would increase the costs of manufacturing the Company's products and could negatively affect our profit margins.

New boat buyers typically finance their purchases. Higher inflation typically results in higher interest rates that could translate into an increased cost of boat ownership. In the event that interest rates rise, or lending standards for consumer loans become more stringent, prospective buyers may choose to forego or delay their purchases or buy a less expensive boat in the event that interest rates rise or credit is not available to finance their boat purchases.

## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

### 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, our belief that retail demand for new recreational boating during 2020 will be lower than in 2019; our belief that recreational boating continues to appeal to U.S. consumers; our belief that the recreational boating industry's promotional program has incrementally benefited the industry and Marine Products; our plans to continue to emphasize the Surf Series line of Chaparral boats, our larger SSX models and our larger Robalo models and our belief that these boat models will expand our customer base and leverage our strong dealer network and reputation for quality and styling; our plans to continue to develop additional new products for subsequent model years, our belief that the liquidity provided by existing cash, cash equivalents and marketable securities, our overall strong capitalization and cash expected to be generated from operations will provide sufficient capital to meet our requirements for at least the next twelve months; our expectations about capital expenditures in 2020; our expectation about contributions to the multiple employer Retirement Income Plan sponsored by RPC in 2020; our expectation to continue to pay cash dividends; statements regarding the potential fluctuations in costs of raw materials and their effect on the costs of manufacturing our products; and our belief that the outcome of any litigation, arising from time to time in the ordinary course of our business, will not have a material adverse effect on the financial position or results of operations of Marine Products.

The words "may," "should," "will," "expect," "believe," "anticipate," "intend," "plan," "seek," "project," "estimate," and similar 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: the impact of the COVID-19 pandemic on the economy, our manufacturing operations and our supply chain; 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; potential liabilities for personal injury or property damage claims relating to the use of our products; our ability to successfully identify suitable acquisition candidates or strategic partners, obtain financing on satisfactory terms, complete acquisitions or strategic alliances, integrate acquired operations into our existing operations, or expand into new markets; changes in various government laws and regulations, including environmental regulations and recent U.S. Government action concerning tariffs on goods; the possibility of retaliatory tariffs imposed on the export of our products to countries on which the U.S. has imposed tariffs; the higher prices of materials, such as hydrocarbon feedstocks, copper, and steel, would increase the costs of manufacturing our products, and could negatively affect our profit margins; higher inflation, which typically results in higher interest rates that could translate into an increased cost of boat ownership and prospective buyers may choose to forego or delay boat purchases; and the existence of certain anti-takeover provisions in our governance documents, which could make a tender offer, change in control or takeover attempt that is opposed by Marine Products' Board of Directors more difficult or expensive. Additional discussion of factors that could cause actual results to differ 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, 2019 and Form 10-Q filed with the Securities and Exchange Commission for the quarter ended March 31, 2020.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Marine Products does not hold derivative financial instruments that could expose the Company to significant market risk.

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

**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, September 30, 2020 (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.

**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**

There have been no material changes from the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 and the Quarterly Report on Form 10-Q for the period ended March 31, 2020.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers.*

Shares repurchased by the Company and affiliated purchases in the third quarter of 2020 are 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 <sup>(1)</sup>
July 1, 2020 to July 31, 2020	—	\$ —	—	1,668,368
August 1, 2020 to August 31, 2020	65,669	14.30	65,669	1,602,699
September 1, 2020 to September 30, 2020	32,271	14.44	32,271	1,570,458
Totals	97,940	\$ 14.35	97,940	1,570,428

(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 March 14, 2005 authorizing the repurchase of an additional 3,000,000 shares. On January 22, 2008 the Board of Directors authorized an additional 3,000,000 shares that the Company may repurchase. During

**MARINE PRODUCTS CORPORATION AND SUBSIDIARIES**

the third quarter of 2020, a total of 97,940 shares were repurchased in the open market under this program and there are 1,570,428 shares that remain available for repurchase. The program does not have a predetermined expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1(a)	<a href="#">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).</a>
3.1(b)	<a href="#">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).</a>
3.2	<a href="#">Amended and Restated 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 October 30, 2015).</a>
4	<a href="#">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).</a>
31.1	<a href="#">Section 302 certification for Chief Executive Officer.</a>
31.2	<a href="#">Section 302 certification for Chief Financial Officer.</a>
32.1	<a href="#">Section 906 certifications for Chief Executive Officer and Chief Financial Officer.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

**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: October 30, 2020

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

Date: October 30, 2020

/s/ Ben M. Palmer  
\_\_\_\_\_  
Ben M. Palmer  
Vice President, Chief Financial Officer and Corporate Secretary  
(Principal Financial and Accounting Officer)

## CERTIFICATIONS

I, Richard A. Hubbell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marine Products Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Richard A. Hubbell

Richard A. Hubbell

President and Chief Executive Officer

(Principal Executive Officer)

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## CERTIFICATIONS

I, Ben M. Palmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marine Products Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Ben M. Palmer

Ben M. Palmer

Vice President, Chief Financial Officer, and Corporate Secretary  
(Principal Financial and Accounting Officer)

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CERTIFICATION OF PERIODIC FINANCIAL REPORTS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

To the best of their knowledge the undersigned hereby certify that the Quarterly Report on Form 10-Q of Marine Products Corporation for the period ended September 30, 2020, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. Sec. 78m) and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Marine Products Corporation.

Date: October 30, 2020      /s/ Richard A. Hubbell  
Richard A. Hubbell  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: October 30, 2020      /s/ Ben M. Palmer  
Ben M. Palmer  
Vice President, Chief Financial Officer and Corporate Secretary  
(Principal Financial and Accounting Officer)

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