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OCEAN BIO CHEM INC  
Form 10-Q  
May 14, 2007

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 March 31, 2007

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-11102

OCEAN BIO-CHEM, INC.

(Exact name of Registrant as specified in its charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

59-1564329  
(I.R.S. Employer  
Identification No.)

4041 SW 47 Avenue, Fort Lauderdale, Florida 33314-4023  
954-587-6280

(Address and telephone number, including area code of  
Registrant's Principal Executive Offices)

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

None

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

Common stock, par value \$.01 per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 12, 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 (1) Is a Shell Company (As Defined In rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer (as defined by Rule 12b-2 of the Securities Exchange Act of 1934), or a non-accelerated filer

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate the number of shares outstanding of each class of the Issuer's common stock, as of the latest practicable date::

\$.01 par value common stock, 10,000,000 shares authorized,

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7,621,316 shares issued and outstanding at March 31, 2007

## OCEAN BIO-CHEM, INC. AND SUBSIDIARIES

### INDEX

| Description   | Page  |
|---|-------|
| -----   | ----  |
| Part I - Financial Information:   |       |
| Item 1. - Financial Statements:   |       |
| Consolidated balance sheets as of March 31, 2007<br>and December 31, 2006   | 3     |
| Consolidated statements of operations for<br>the three months ended March 31,<br>2007 and 2006                      | 4     |
| Consolidated statements of changes in<br>shareholders' equity for the three months<br>ended March 31, 2007 and 2006 | 5     |
| Consolidated statements of cash flows<br>for the three months ended March 31,<br>2007 and 2006                      | 6     |
| Item 2. - Management's Discussion and Analysis<br>of Financial Condition and Results of Operations                  | 7-11  |
| Item 3 - Quantitative and Qualitative Disclosures<br>about Market Risk  | 11    |
| Item 4 - Controls and Procedures  | 11    |
| Part II - Other Information:  |       |
| Item 1. - Legal Proceedings   | 11    |
| Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds   | 11    |
| Item 3. - Defaults upon Senior Securities   | 11    |
| Item 4. - Submission of Matters to a Vote by Security Holders   | 11    |
| Item 5. - Other Matters   | 11    |
| Item 6. - Exhibits  | 11    |
| Signatures  | 12    |
| Certifications  | 13-15 |

#### PART I - Financial Information

##### Item 1. Financial Statements:

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## OCEAN BIO-CHEM, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

### ASSETS

|   | MARCH 31,<br>2007 | DECEMBER<br>2006 |
|---|-------------------|------------------|
|   | -----             | -----            |
|   | (UNAUDITED)       |                  |
| Current assets:   |                   |                  |
| Cash  | \$ 470,920        | \$ 71,           |
| Trade accounts receivable net of allowance for doubtful<br>accounts of approximately \$36,700 at March 31,<br>2007 and \$192,700 at December 31, 2006, respectively | 2,105,609         | 2,026,           |
| Inventories, net  | 6,435,673         | 5,647,           |
| Prepaid expenses and other current assets   | 235,010           | 218,             |
|   | -----             | -----            |
| Total current assets  | 9,247,212         | 7,964,           |
|   | -----             | -----            |
| Property, plant and equipment, net  | 6,646,939         | 6,800,           |
|   | -----             | -----            |
| Other assets:   |                   |                  |
| Trademarks, trade names and patents, net<br>of accumulated amortization   | 330,439           | 330,             |
| Due from affiliated companies, net  | 229,052           | 231,             |
| Deferred Charges, Deposits and other assets   | 206,108           | 203,             |
|   | -----             | -----            |
| Total other assets  | 765,599           | 765,             |
|   | -----             | -----            |
| Total assets  | \$16,659,750      | \$15,529,        |
|   | =====             | =====            |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |                   |                  |
| Current liabilities:  |                   |                  |
| Accounts payable - trade  | \$ 1,435,402      | \$ 943,          |
| Note payable - bank   | 3,049,996         | 2,150,           |
| Current portion of long term debt   | 486,559           | 586,             |
| Accrued Expenses Payable & Taxes  | 499,848           | 363,             |
|   | -----             | -----            |
| Total Current Liabilities   | 5,471,805         | 4,043,           |
|   | -----             | -----            |
| Long term debt, less current portion  | 4,403,363         | 4,550,           |
|   | -----             | -----            |
| Shareholders' equity:   |                   |                  |
| Common stock - \$.01 par value, 10,000,000 shares authorized;<br>7,621,316 shares issued and outstanding at<br>March 31, 2007 and December 31, 2006, respectively   | 76,213            | 76,              |
| Additional paid-in capital  | 7,268,833         | 7,257,           |
| Foreign currency translation adjustment   | ( 175,298)        | ( 176,           |
| Deficit   | ( 376,971)        | ( 213,           |
|   | -----             | -----            |
|   | 6,792,777         | 6,943,           |
|   | -----             | -----            |
| Less cost of common stock in treasury, 7,519 shares<br>at March 31, 2007 and December 31, 2006  | ( 8,195)          | ( 8,             |
|   | -----             | -----            |
|   | 6,784,582         | 6,935,           |
|   | -----             | -----            |
| Total liabilities and shareholders' equity  | \$16,659,750      | \$15,529,        |

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2007 AND 2006  
(UNAUDITED)

|  | 2007         | 2006      |
|--|--------------|-----------|
|  | -----        | -----     |
| Gross sales  | \$ 4,419,657 | \$ 4,788, |
| Less discounts, returns and Allowances                       | 397,249      | 379,      |
|  | -----        | -----     |
| Net sales  | 4,022,408    | 4,409,    |
| Cost of goods sold   | 2,847,509    | 3,060,    |
|  | -----        | -----     |
| Gross profit   | 1,174,899    | 1,349,    |
|  | -----        | -----     |
| Operating expenses:  |              |           |
| Advertising and promotion                                    | 206,652      | 186,      |
| Selling and administrative                                   | 1,034,142    | 828,      |
| Interest expense   | 97,238       | 142,      |
|  | -----        | -----     |
| Total operating expenses                                     | 1,338,032    | 1,157,    |
|  | -----        | -----     |
| Operating profit (loss)                                      | ( 163,133)   | 191,      |
| Interest and other income                                    | -            | 1,        |
|  | -----        | -----     |
| Income (loss) before provision (benefit)<br>for income taxes | ( 163,133)   | 192,      |
| Provision (benefit) for income taxes                         | -            |           |
|  | -----        | -----     |
| Net income (loss)  | ( 163,133)   | 192,      |
|  | -----        | -----     |
| Other comprehensive income:                                  |              |           |
| Foreign currency translation,<br>Net of taxes                | 796          | 5,        |
|  | -----        | -----     |
| Comprehensive income (loss)                                  | (\$ 162,337) | \$ 198,   |
|  | =====        | =====     |
| PER SHARE AMOUNTS:   |              |           |
| Basic and diluted (loss) income<br>per common share          | (\$ .02)     | \$        |

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Basic and diluted average number  
of common and common equivalent  
shares outstanding

7,621,316

5,849,

The Company has adopted Statement of Financial Accounting Standards No. 130 that requires items of comprehensive income to be stated as part of the basic financial statements. The only item of comprehensive income that the Registrant has is its foreign currency translation adjustment.

4

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2007 AND 2006  
(UNAUDITED)

|  | Common stock<br>Shares | Common stock<br>Amount | Additional<br>paid-in capital | Foreign<br>currency<br>adjustment | Retained<br>earnings<br>(deficit) | Treas<br>stoc |
|--|------------------------|------------------------|-------------------------------|-----------------------------------|-----------------------------------|---------------|
|  | -----                  | -----                  | -----                         | -----                             | -----                             | -----         |
| January 1,<br>2007                                     | 7,621,316              | \$76,213               | \$7,257,447                   | (\$176,094)                       | (\$213,838)                       | (\$8,1        |
| Net loss   |                        |                        |                               | ( 163,133)                        |                                   |               |
| Compensation Costs<br>Associated with<br>Stock Options |                        |                        | 11,386                        |                                   |                                   |               |
| Foreign currency<br>translation<br>adjustment          |                        |                        |                               | 796                               |                                   |               |
| March 31,<br>2007                                      | 7,621,316              | \$76,213               | \$7,268,833                   | (\$175,298)                       | (\$376,971)                       | (\$8,1        |
| January 1,<br>2006                                     | 5,849,316              | \$58,493               | \$4,908,615                   | (\$179,653)                       | (\$488,563)                       | (\$8,1        |
| Net income   |                        |                        |                               |                                   | 192,840                           |               |
| Debt forgiveness -<br>Affiliate                        |                        |                        | 295,752                       |                                   |                                   |               |
| Foreign currency<br>translation<br>adjustment          |                        |                        |                               | 5,499                             |                                   |               |
| March 31,<br>2006                                      | 5,849,316              | \$58,493               | \$5,204,367                   | (\$174,154)                       | (\$295,723)                       | (\$8,1        |

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006  
(UNAUDITED)

|  | 2007         | 2006    |
|--|--------------|---------|
|  | -----        | -----   |
| Cash flows from operating activities:  |              |         |
| Net income (loss)  | (\$ 163,133) | \$ 192, |
| Adjustments to reconcile net income (loss)<br>to net cash provided (used) by operations: |              |         |
| Depreciation and amortization  | 193,237      | 193,    |
| Compensation cost associated with<br>option modifications                                | 11,386       |         |
| (Increase) decrease in accounts receivable -<br>allowance for doubtful account           | ( 156,000)   |         |
| Changes in assets and liabilities:   |              |         |
| (Increase) decrease in accounts receivable   | 77,261       | ( 143,  |
| (Increase) decrease in inventory   | ( 787,740)   | ( 638,  |
| (Increase) decrease in prepaid expenses  | ( 19,459)    | 38,     |
| (Decrease) increase in accounts payable<br>and accrued taxes and other                   | 627,675      | 630,    |
| Net cash provided (used) by operating activities   | ( 216,772)   | 272,    |
| Cash flows used by investing activities:   |              |         |
| Purchases of property, plant and equipment   | ( 40,000)    | ( 155,  |
| Net cash used by investing activities  | ( 40,000)    | ( 155,  |
| Cash flows from financing activities:  |              |         |
| Borrowings line of credit  | 1,400,000    | 550,    |
| Principal payments - line of credit  | ( 500,004)   | ( 700,  |
| (Increase) decrease in amounts due from affiliates                                       | 2,149        | 2,      |
| Increase (decrease) long-term debt   | ( 246,329)   | ( 58,   |
| Common stock transactions  | -            |         |
| Net cash provided (used) by financing activities   | 655,816      | ( 206,  |
| Increase (decrease) in cash prior to effect of<br>exchange rate on cash                  | 399,043      | ( 89,   |
| Effect of exchange rate on cash  | 796          | 5,      |
| Net increase (decrease) in cash  | 399,839      | ( 83,   |
| Cash at beginning of period  | 71,080       | 204,    |

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|   |                              |                         |
|---|------------------------------|-------------------------|
| Cash at end of period                         | -----<br>\$ 470,920<br>===== | -----<br>\$ 12<br>===== |
| Supplemental disclosure of cash transactions: |                              |                         |
| Cash paid for interest during period          | \$ 97,238<br>=====           | \$ 83,<br>=====         |
| Cash paid for income taxes during period      | \$ -                         | \$                      |
| Non-cash investing and financing activities:  |                              |                         |
| Forgiveness of indebtedness to an affiliate   | \$ -<br>=====                | \$ 295<br>=====         |

6

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Interim Reporting

The accompanying unaudited consolidated financial statements include the accounts of Ocean Bio-Chem, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated. The unaudited consolidated financial statements have been prepared in conformity with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the financial statements, have been included. Operating results for the period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the future fiscal quarters in 2007 or the full year ending December 31, 2007 due to seasonal fluctuations in our business, changes in economic conditions and other factors. For further information, please refer to the Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

Certain financial statement items for the quarter ended March 31, 2006 have been reclassified to conform to the 2007 presentation.

Forward-looking Statements:

Certain statements contained herein, including without limitation expectations as to future sales and operating results, constitute forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigations Reform Act of 1995. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "anticipate", "intend", "could" or the negative other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors which may affect the Company's results include, but are not limited to, the highly competitive nature of the Company's industry; reliance on certain key customers; consumer demand for marine recreational vehicle and automotive products; advertising and promotional

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efforts, and other factors. The Company will not undertake and specifically declines any obligation to update or correct any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

### Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

#### Overview:

We are a leading manufacturer and distributor of chemical formulations serving the appearance and functional categories of the marine, automotive, recreational vehicle and home care markets. We were founded in 1973 and have conducted operations within the aforementioned categories since then. During 1984, we changed our corporate name to Ocean Bio-Chem, Inc. (the parent company) from our former name, Star brite Corporation. Our operations were conducted as a privately owned company through March, 1981 when we completed our initial public offering of common stock.

#### Critical accounting policies and estimates:

**Principles of consolidation** - Our consolidated financial statements include the accounts of the parent company and its wholly owned subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation.

**Revenue recognition** - Revenue from product sales is recognized when persuasive evidence of an arrangement exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectibility of the related receivable is probable.

**Inventories** - Inventories are primarily composed of raw materials and finished goods and are stated at the lower of cost, using the first-in, first-out method, or market. A valuation allowance for slow moving inventory is reflected in the balance sheets at March 31, 2007 and December 31, 2006. The composition of inventories at March 31, 2007 and December 31, 2006 were as follows:

|                | March 31, 2007 | December 31, 2006 |
|----------------|----------------|-------------------|
| Raw materials  | \$ 2,414,999   | \$ 3,423,030      |
| Finished goods | 4,021,174      | 2,224,903         |
|                | -----          | -----             |
|                | \$ 6,435,673   | \$ 5,647,933      |
|                | =====          | =====             |

7

**Prepaid advertising and promotion** - In any given year we introduce certain new products to our customers. In connection therewith, we produce new promotional items to be distributed over a period of time. We follow the policy of amortizing these costs over a one-year basis.

**Property, plant and equipment** - Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method.

**Stock based compensation** - Prior to January 1, 2006 we followed the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, to record compensation costs. Opinion No. 25 requires that compensation cost be based on the difference, if any, between the quoted market price of the stock and the price the employee must pay to acquire the stock depending on the terms of the award. Effective January 1, 2006 we adopted the provisions Statement of



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Financial Accounting Standards No. 123R to record such compensation costs. However, the impact of this pronouncement to our first quarter's operations was deemed to be not material. Prior thereto, such matters were disclosed in the notes to our consolidated financial statements.

Concentration of credit risk - Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. Over the past two years, our five largest customers historically represented a range of approximately 79% to 75% of consolidated gross revenues and 54% to 56% of consolidated accounts receivable, respectively. We have experienced a longstanding relationship with each of these entities and have always collected open receivable balances in a timely manner. However, the loss of any of these customers could have an adverse impact on our operations.

Fair value of financial instruments - The carrying amount of cash approximates its fair value. The fair value of long-term debt is based on current rates at which we could borrow funds with similar remaining maturities, and the carrying amount approximates fair value.

Income taxes - We file consolidated federal and state income tax returns. We have adopted Statement of Financial Accounting Standards No. 109 in the accompanying consolidated financial statements. The only temporary differences included therein are attributable to differing methods of reflecting depreciation for financial statement and income tax purposes.

Trademarks, trade names and patents - The Star Brite trade name and trademark were purchased in 1980 for \$880,000. The cost of such intangible assets was amortized on a straight-line basis over an estimated useful life of 40 years through December 31, 2001. Effective January 1, 2002 and pursuant to Statement of Financial Accounting Standards No. 142, we have determined that the carrying value of such intangible assets relating to its Star Brite brand does not require further amortization. In addition, we own two patents that we believe are valuable in limited product lines, but not material to our success or competitiveness in general. There are no capitalized costs of these two patents.

Translation of Canadian currency - The accounts of our Canadian subsidiary are translated in accordance with Statement of Financial Accounting Standards No. 52, which requires that foreign currency assets and liabilities be translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as the translation adjustment in shareholders' equity. Realized gains and losses from foreign currency transactions, if any, are included in net earnings of the period.

### Recent Accounting Pronouncements:

During September 2006 the FASB issued SFAS 157, Fair Value Measurements. This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of the SFAS are effective as January 1, 2008.

During February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. Such pronouncement permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of the SFAS are effective January 1, 2008.

The Company has determined that these recent accounting pronouncements will not have a material effect on its financial statements.

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### Liquidity and Capital Resources:

The primary sources of our liquidity are our operations and short-term borrowings from Regions Bank pursuant to a revolving line of credit aggregating \$6 million. Such line matures May 31, 2007, bears interest at the 30 Day LIBOR plus 275 basis points (approximately 8.07% at March 31, 2007) and is secured by our trade receivables, inventory and intangible assets. As of each year-end, December 31, we are required to maintain a minimum working capital of \$1.5 million and meet certain other financial covenants during the term of the agreement. As of March 31, 2007, we were obligated under this arrangement in the amount of \$3,050,000. Based on discussions with our bank, we expect, but cannot give assurance, that such line will be renewed on May 31, 2007.

8

In connection with the purchase and expansion of the Alabama facility, we closed on Industrial Development Bonds during 1997 aggregating approximately \$5 million. The proceeds were utilized for both the repayment of certain advances used to purchase the Alabama facility and to expand such facility for our future needs. During July 2002, we completed a second Industrial Development Bond financing aggregating \$3.5 million through the City of Montgomery, Alabama. Such transaction funded an approximate 70,000 square foot addition to the manufacturing facility as well as the remaining machinery and equipment additions required therein. This project was substantially completed during 2003.

In order to market the Industrial Development Bonds at favorable rates, we obtained a substitute irrevocable letter of credit for the 1997 issue and a new irrevocable letter of credit for the 2002 issue. Under such letters of credit agreements, maturing on July 31, 2007, we are required to maintain a stipulated level of working capital, a designated maximum debt to tangible ratio, and a required debt service coverage ratio. Such letters of credit are secured by a first priority mortgage on the underlying Alabama facility and equipment. Based on discussions with our bank, we expect, but cannot give assurance, that such letters of credit will be renewed on maturity.

The bonds are marketed weekly at the prevailing rates for such tax-exempt instruments. During the three months ended March 31, 2007 such bonds carried interest ranging between 3.70% and 3.91% annually. Interest and principal are payable quarterly. We believe current operations are sufficient to meet these obligations.

On April 12, 2005 we entered into a financing obligation with Regions Bank whereby they advanced us \$500,000 to finance equipment acquisitions at our Kinpak facility. Such obligation is due in monthly installments of principal aggregating approximately \$8,300 plus interest at prevailing rates (the outstanding balance and interest rate on this obligation at March 31, 2007 were approximately \$333,340 and 2.5% per annum, respectively). The maturity on this obligation is April 15, 2010.

We are involved in making sales in the Canadian market and must deal with the currency fluctuations of the Canadian currency. We do not engage in currency hedging and deal with such currency risk as a pricing issue.

During the past few years, we have introduced various new products to our customers. At times this has required us to carry greater amounts of overall inventory and has resulted in lower inventory turnover rates. The effects of such inventory turnover have not been material to our overall operations. We believe that all required capital to maintain such increases can continue to be provided by operations and current financing arrangements.

Many of the raw materials that we use in the manufacturing process are commodities that are subject to fluctuating prices. We react to long-term

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increases by passing along all or a portion of such increases to our customers.

As of March 31, 2007 and through the date hereof, we did not and do not have any material commitments for capital expenditures, nor do we have any other present commitment that is likely to result in our liquidity increasing or decreasing in any material way. In addition, except for our need for additional capital to finance inventory purchases, we know of no trend, additional demand, event or uncertainty that will result in, or that is reasonably likely to result in, our liquidity increasing or decreasing in any material way.

Corporate management has enhanced its analysis, supervision and overall involvement with our manufacturing facility. We have identified several areas that require improvement and through increased on-site management presence, major personnel changes, adoption of certain strategic enhancements to our manufacturing process, and a renewed commitment from our team in Alabama to strive for improved efficiency and cost savings, we believe that we will achieve a material reduction in manufacturing cost thereby improving product margins and operating results at Kinpak during 2007.

On March 25, 1999, the Company entered into a loan arrangement with an entity owned 50% each by our President and Vice President - Advertising, Messrs. Peter G. Dornau and Jeffrey J. Tieger, respectively whereby we borrowed \$400,000.00 to be repaid in monthly installments of \$3,356.79 plus prevailing interest at prime plus 1%. On March 9, 2006 we received notification from the shareholders of said entity that they were forgiving this obligation and, accordingly, the Company has no further obligation associated with this debt. At that date the principal balance outstanding amounted to \$295,752 and such amount is reflected on the accompany consolidated statement of shareholders' equity as additional paid-in capital.

### First Quarter Trend:

Resulting principally from the recurring seasonality of retail consumer purchases of the Company's products, promotions offered to our wholesale customer during the fourth quarter and the unpredictability of weather during the first quarter, the Company historically experiences operating losses during the quarters ending March 31. The following tabulation reflects our operating

9

results for net sales and net income (loss) for our first quarters during the past five years:

| Quarter ended<br>March 31,<br>----- | Net sales<br>----- | Net income (loss)<br>----- |
|-------------------------------------|--------------------|----------------------------|
| 2007                                | \$ 4,022,408       | (\$ 163,133)               |
| 2006                                | 4,409,592          | 192,840                    |
| 2005                                | 3,095,778          | ( 571,216)                 |
| 2004                                | 3,437,586          | ( 205,541)                 |
| 2003                                | 2,870,767          | ( 682,058)                 |

The results for such interim periods are not necessarily indicative of results to be expected for the full year.

### Results of Operations:

NET SALES for the three months ended March 31, 2007 were \$4,022,408, a decrease of \$387,184 (8.8%) compared to net sales of \$4,409,592 for the corresponding period in 2006. The decreases in sales were primarily due to two reasons: In the 1st quarter of 2006 a major customer ( West Marine ) resumed buying products in a more normalized buying pattern, resulting in larger

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quantities purchased after their 2005 inventory reduction program. This significantly curtailed purchasing of our products in the 4th quarter of 2005 by West Marine. The 1st quarter sales of 2007 to West Marine represented a more normal buying pattern. We expect to continue the 1st quarter 2007 West Marine buying trend in the future. In addition the inclement weather in the northeast and mid west parts of the United States has delayed the start of the boating season, resulting in slower sales of our products.

GROSS PROFIT for the three months ended March 31, 2007 was \$1,174,899, a decrease of \$174,171 (13%) as compared to \$1,349,070 for the corresponding period of 2006. Gross profit as a percentage of sales for the first quarter of 2007 declined to 29.2% compared to 30.6% for the same period of 2006. The decrease in gross profit margin is mostly due to lower factory overhead absorption resulting from reduced sales volume.

SELLING, GENERAL AND ADMINISTRATIVE expenses for the three months ended March 31, 2007 were \$1,034,142, an increase of \$206,056 (25%) as compared to \$828,086 for the corresponding period of 2006. During the first quarter of 2007 the Company hired two new executives, the Chief Financial Officer and the Vice President of Marketing & Advertising. These executives transitioned with their predecessors, resulting in higher salaries. In addition, there were higher consulting fees, outside services, other professional fees and outsourced data processing services.

ADVERTISING AND PROMOTION expenses for the three months ended March 31, 2007 were \$206,652, an increase of \$19,733, (10.6%) as compared to \$186,920 for the corresponding period of 2006. This was the result of increased television and radio advertising. We strategically started promoting our Startron enzyme fuel additive. These expenses were partially offset by lower customer catalog and promotion allowances.

INTEREST EXPENSE for the three months ended March 31, 2007 was \$97,238, a decrease of \$45,272 (32%) as compared to \$142,510 for the corresponding period of 2006. The interest expense decreased significantly due to the lower debt levels for comparative periods. This is a result of our Chief Executive Officer, President Peter Dornau converting \$1,500,000 of debt to equity in the 4th quarter of 2006.

INCOME TAX EXPENSE -There was no provision for income taxes in the current quarter as the Company had sufficient net operating loss carryover amounts to offset any potential taxes that would otherwise be due on the earnings.

The net loss for the quarter ended March 31, 2007 amounted to \$163,133 compared income of \$192,840 for the comparable period in 2006, a decrease of \$355,974.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity, principally petroleum based raw materials, market prices and interest rates. We are exposed to market risk in the areas of changes in borrowing rates in the United States and changes in foreign currency exchange rates. Historically, and as of March 31, 2007, we have not used derivative instruments or engaged in hedging activities to minimize market risk.

#### Interest rate risk

As of March 31, 2007, we had floating interest rates on our industrial development revenue bonds and our working capital line of credit facility. As of March 31, 2007 the interest rate on our \$4,900,000 outstanding balance of

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industrial revenue bonds was approximately 3.7% per annum and the interest rate on our line of credit facility was based on the 30 day LIBOR rate plus 275 basis points (the effective interest rate at March 31, 2007 was 8.07 %). We do not expect any changes in interest rates to have a material impact on our operations during the year ending December 31, 2007.

10

### Foreign currency risk

We sell products in Canada, based on the Canadian dollar. Thereby, we have exposure to changes in exchange rates. Changes in the Canadian dollar/U.S. dollar exchange rates may positively or negatively affect our gross margins, operating income and retained earnings. We do not believe that near-term changes in the exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows, and therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of the Canadian dollar.

### Concentration and credit risk

We maintain cash balances at several financial institutions which are insured by the Federal Deposit Insurance Corporation up to \$100,000. At times, our cash balances may exceed federally insured limits. We have not experienced any losses in such accounts and we believe the risk related to these deposits is minimal.

### Item 4. Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934 ("Exchange Act"), under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in providing reasonable assurance that material information required to be included in our periodic SEC reports is made known to them in a timely manner. Management does not expect that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. - Legal Proceedings:

We are not a party to any material litigation presently pending nor, to the best knowledge of the Company, have any such proceedings been threatened.

### Item 1A. - Risk Factors

Set forth any material changes from Risk Factors as previously reported in the Registrant's Form 10-K in response to Item 1A. in Part 1 of Form 10-K.

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There have been no material changes

Item 2. - Unregistered Sales of Equity Securities: Not applicable

Item 3. - Defaults Upon Senior Securities: Not applicable

Item 4. - Submission of Matters to a Vote of Security Holders: Not applicable

Item 5. - Other Information:

On April 2, 2007, the Company's Board of Directors elected Jeffrey S. Barocas, Gregor M. Dornau and William W. Dudman to serve as a member of the Board.

On January 25, 2007 and April 16, 2007 Jeffrey J. Tieger and Edward Anchel, respectively resigned their positions as officers of the Company. Mr. Tieger also resigned his seat on the Board of Directors; Mr. Anchel will continue to serve on the Board.

On April 16, 2007 the Company's Board of Directors approved adopting the 2007 Incentive Stock Option Plan covering an amount not to exceed 400,000 shares of common stock.

Item 6. - Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley

11

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on behalf by the Undersigned there unto duly authorized.

OCEAN BIO-CHEM, INC.

Date: May 14, 2007

/s/ Peter G. Dornau

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Peter G. Dornau  
Chairman of the Board of Directors  
and Chief Executive Officer

/s/ Jeffrey S. Barocas

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Jeffrey S. Barocas  
Chief Financial Officer

CERTIFICATION

I, Peter G. Dornau certify that:

1. I have reviewed this Form 10-Q of Ocean Bio-Chem, Inc. as of and for the period ended March 31, 2007;

2. Based on my knowledge, this quarterly 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(i) 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

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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 registrant's board of directors (or persons performing the equivalent function):

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.

Dated: May 14, 2007

/s/ Peter G. Dornau

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Peter G. Dornau  
Chairman of the Board and  
Chief Executive Officer

13

Exhibit 31.2

CERTIFICATION

I, Jeffrey S. Barocas certify that:

1. I have reviewed this Form 10-Q of Ocean Bio-Chem, Inc. as of and for the period ended March 31, 2007;

2. Based on my knowledge, this quarterly 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(i) 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;



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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 registrant's board of directors (or persons performing the equivalent function):

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.

Dated: May 14, 2007

/s/ Jeffrey S. Barocas  
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Jeffrey S. Barocas  
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officers of Ocean Bio-Chem, Inc. (the "Company"), hereby certify that the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: May 14, 2007

/s/ Peter G. Dornau  
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Peter G. Dornau  
Chairman of the Board and  
Chief Executive Officer

/s/ Jeffrey S. Barocas  
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Jeffrey S. Barocas  
Chief Financial Officer