

Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

OCEAN BIO CHEM INC  
Form 10-Q  
August 13, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 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 Number)

4041 SW 47 Avenue, Ft. Lauderdale, Florida 33314-4023  
(Address of principal executive offices)

954-587-6280  
(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated file. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company .

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

As of August 6, 2008, there were 7,886,816 shares of Common Stock, \$.01 par value of the registrant outstanding

# Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

## OCEAN BIO-CHEM, INC. AND SUBSIDIARIES INDEX

Description	Page
Part I Financial Information:	
Item 1. - Financial Statements:	
Condensed consolidated balance sheets as of June 30, 2008 (unaudited) and December 31, 2007	3
Condensed consolidated statements of operations for the three and six month periods ended June 30, 2008 and 2007 (unaudited)	4
Condensed consolidated statements of cash flows for the six months ended June 30, 2008 and 2007 (unaudited)	5
Notes to (unaudited) condensed consolidated financial statements	6-10
Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations	10-12
Item 3. - Quantitative and Qualitative Disclosures about Market Risk	13
Item 4. - Controls and Procedures	13
Part II - Other Information:	
Item 1. - Legal Proceedings	13
Item 1A. - Risk Factors	13
Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds	13
Item 3. - Defaults upon Senior Securities	13
Item 4. - Submission of Matters to a Vote by Security Holders	13
Item 5. - Other Matters	13
Item 6. - Exhibits	14
Signatures	14
Certifications	15-17

PART I - Financial Information  
1. Financial Statements (unaudited)

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

JUNE 30, 2008

DECEMBER

Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

ASSETS	----- (UNAUDITED)	-----
Current Assets:		
Cash	\$ 598,098	\$
Trade accounts receivable net of allowance for doubtful accounts of approximately \$47,000 at June 30, 2008 and December 31, 2007 respectively	1,883,880	1,
Income taxes receivable	96,817	
Inventories, net	7,591,081	5,
Prepaid expenses and other current assets	152,709	
	-----	-----
Total current assets	10,322,585	9,
	-----	-----
Property, plant and equipment, net	6,019,604	6,
	-----	-----
Other assets:		
Trademarks, trade names and patents, net of accumulated amortization	330,439	
Due from affiliated companies, net	210,944	
Deposits and other assets	151,601	
	-----	-----
Total Other Assets	692,984	
	-----	-----
Total Assets	\$ 17,035,173	\$ 15,
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable - trade	\$ 1,213,563	\$ 1,
Note payable - bank	2,900,000	1,
Current portion of long term debt	589,034	
Accrued expenses payable	773,432	
	-----	-----
Total Current Liabilities	5,476,029	3,
	-----	-----
Long term debt, less current portion	3,706,126	3,
	-----	-----
Shareholders' Equity:		
Common stock - \$.01 par value, 10,000,000 shares authorized; 7,871,816 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	78,718	
Additional paid in capital	7,840,285	7,
Foreign currency translation adjustment	( 272,839)	(
Retained earnings	215,049	
	-----	-----
	7,861,213	8,
Less cost of common stock in treasury, 7,519 shares	( 8,195)	(
	-----	-----
Total Shareholders' Equity	7,853,018	8,

Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

Total Liabilities and Shareholders' Equity

\$ 17,035,173

\$ 15,

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

3

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2008	2007
Gross Sales	\$ 5,205,221	\$ 5,968,738
Allowances	214,255	534,735
Net sales	4,990,966	5,434,003
Cost of goods sold	3,285,957	3,275,260
Gross profit	1,705,009	2,158,743
Expenses:		
Advertising and promotion	467,724	467,380
Selling and administrative	1,149,478	1,190,910
Interest expense	95,246	105,860
Total expenses	1,712,448	1,764,150
Operating Income (Loss)	(7,439)	394,593
Other Income (Expense)	(822)	-
Income (Loss) before income taxes	(8,261)	394,593
Income tax expense (benefit)	9,453	-
Net Income (Loss)	(17,714)	394,593
Other comprehensive Income (Loss), net of tax		
Foreign currency translation adjustment	(62,480)	34,912

Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

Comprehensive Income (Loss)	(\$ 80,194)	\$ 429,505
Income (Loss) per common share - basic	(\$ 0.00)	\$ 0.06
Income (Loss) per common share - diluted	(\$ 0.00)	\$ 0.05
Weighted average shares - basic	7,871,816	7,689,316
Weighted average shares - diluted	7,871,816	8,572,376

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

4

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007  
 (UNAUDITED)

	2008	
Cash flows from operating activities:		
Net Income (Loss)	(\$ 224,004)	\$
Adjustments to reconcile Net income (Loss) to net cash provided by (used in) operations:		
Depreciation and amortization	394,598	
Compensation cost associated with stock options and stock awards	59,738	
Change in allowance for doubtful accounts	2,106	
Changes in assets and liabilities:		
Accounts receivable	88,668	(
Inventory	( 1,597,424)	(
Prepaid expenses and other assets	137,716	
Accounts payable and other accrued liabilities	399,147	
Net cash provided by (used in) operating activities	( 739,455)	
Cash flows from investing activities:		
Purchases of property, plant and equipment	( 178,391)	(
Net cash provided by (used in) investing activities	( 178,391)	(

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

Cash flows from financing activities:

Borrowings line of credit, net	1,150,000	
Amounts due from affiliates	( 101,634)	
Short term borrowings, net	( 872)	
Principal payments - Long-term debt	( 282,852)	(
	-----	-----
Net cash provided by (used in) financing activities	764,642	
	-----	-----
Cash prior to effect of exchange rate on cash	( 153,204)	
Effect of exchange rate on cash	401	(
	-----	-----
Net (decrease) increase in cash	( 152,803)	
Cash at beginning of period	750,901	
	-----	-----
Cash at end of period	\$ 598,098	\$
	=====	=====
Supplemental disclosure of cash transactions:		
Cash paid for interest during period	\$ 159,933	\$
	-----	-----
Cash paid for income taxes during period	\$ -	\$
	-----	-----

The company had no cash equivalents at June 30, 2008 and 2007

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

5

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

#### 1. SUMMARY OF ACCOUNTING POLICIES

##### Interim Reporting

The accompanying unaudited consolidated financial statements include the accounts of Ocean Bio-Chem, Inc. and its subsidiaries ("the Company"). All significant inter-company transactions and balances have been eliminated. The unaudited consolidated financial statements have been prepared in conformity with Article 10 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 June 30, 2008 are not necessarily indicative of the results that may be expected for the future fiscal quarters in 2008 or the full year ending December 31, 2008 due to seasonal fluctuations in the Company's business, changes in economic

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

conditions and other factors. For further information, please refer to the Consolidated Financial Statements and Notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amount of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 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. Reported net sales are net of customer prompt pay discounts, contractual allowances, authorized customer returns, consumer rebates and other allowable deductions from our invoices. Cooperative advertising deductions, based on our customers' promotion of our products is recognized as an advertising cost and charged against operations as an operating expense. The Company follows the policy of reporting sales taxes as a net amount - receipt and payments recorded in a liability account.

### Cost of goods sold/Selling, general and administrative expenses

Cost of goods sold includes all of the direct and indirect costs of manufacturing our products. Included therein specifically are warehousing costs of both raw and finished materials, in-bound freight, out-bound freight (in those instances that we absorb such costs), purchasing, receiving, and inspection costs. Other costs of the distribution network are reflected in Selling, General and Administrative expenses. Also included therein are managerial and clerical wages and related expenses, office and administrative occupancy costs, taxes, professional fees, insurance coverage's and other related expenses.

### Inventories

Inventories are comprised of raw materials, work-in process and finished goods and stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING CHANGES:

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement clarifies the definition of fair value of assets and liabilities, establishes a framework for measuring fair value of assets and liabilities and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. However, the FASB deferred the effective date of SFAS No. 157 until the fiscal years beginning after November 15, 2008 as it relates to the fair value measurement requirements for nonfinancial assets and liabilities that are initially measured at fair value, but not measured at fair value in subsequent periods. These nonfinancial assets include trademarks and other intangible assets which are included within other assets. In accordance with SFAS No. 157, the Company has adopted the provisions of SFAS No. 157 with respect to financial assets and liabilities effective as of January 1, 2008 and its adoption did not have a material impact on its results of operations or financial condition. The adoption of this standard has not had a material effect on the consolidated results of operations and financial position of the Company for the reporting period.

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many

6

financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for us on January 1, 2008. The adoption of this standard has not had a material effect on the consolidated results of operations and financial position of the Company for the reporting period.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 110. This guidance allows companies, in certain circumstances, to utilize a simplified method in determining the expected term of stock option grants when calculating the compensation expense to be recorded under Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. The simplified method can be used after December 31, 2007 only if a company's stock option exercise experience does not provide a reasonable basis upon which to estimate the expected option term. Through 2007, we utilized the simplified method to determine the expected option term, based upon the vesting and original contractual terms of the option. During 2008, we continue to use the simplified method in accordance with SAB No. 110.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS:

In December 2007, the FASB issued SFAS No. 141 (revised 2007) "Business Combinations" ("FASB No. 141(R)"). FASB No. 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. FASB No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. FASB No. 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. FASB No. 141(R) is effective for the Company for fiscal 2010. The Company is currently assessing the impact of FASB No. 141(R) on its consolidated financial position and results of operations.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ("FASB No. 160")." The objective of FASB No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the Noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. FASB No. 160 amends ARB 51 to establish accounting and reporting standards for the Noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FASB No. 141(R). This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R). FASB No. 160 will be effective for the Company's fiscal 2010. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented.



## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirement for FASB Statement No. 133, "Derivative Instruments and Hedging Activities" ("SFAS No. 133"). It requires enhanced disclosure about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company as of January 1, 2009.

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets", (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3 on its consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The Board believes the GAAP hierarchy should be

7

directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of FASB 162 is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In May, 2008 the FASB issued FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting APB 14-1 on its consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities". This FASB Staff Position (FSP) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. This FSP provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. The provisions of FSP No. 03-6-1 shall be

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. Early application is not permitted. The provisions of FSP No. 03-6-1 are effective for the Company retroactively in the first quarter ended March 31, 2009. The Company is currently assessing the impact of FSP No. EITF 03-6-1 on the calculation and presentation of earnings per share in its consolidated financial statements.

### 4. INVENTORIES

The composition of inventories at June 30, 2008 and December 31, 2007 are as follows:

	2008	2007
	-----	-----
Raw materials	\$ 4,006,752	\$ 3,247,359
Finished goods	3,699,956	2,821,861
Less inventory reserve	( 115,627)	( 75,563)
	-----	-----
Inventory - net	\$ 7,591,081	\$ 5,993,657
	=====	=====

At June 30, 2008 and December 31, 2007, approximately \$116,000 and \$76,000 respectively is reflected in the accompanying consolidated financial statements as a reserve for excess, obsolete, slow moving and shrinkage inventory adjustments.

### 5. PROPERTY, PLANT & EQUIPMENT

The Company's property, plant and equipment consisted of the following at June 30, 2008 and December 31, 2007:

	Estimated Useful Life- Years	2008	2007
	-----	-----	-----
Land	N/A	\$ 278,325	\$ 278,325
Building	30	4,389,154	4,389,154
Manufacturing and warehouse equipment	6-20	6,492,622	6,367,622
Office equipment and furniture	3-5	553,917	509,917
Leasehold improvement	10-15	122,644	122,644
Construction in process	N/A	30,310	21,310
		-----	-----
		11,866,972	11,688,972
Less accumulated depreciation		( 5,847,368)	( 5,452,368)
		-----	-----
Total property, plant and equipment, net		\$ 6,019,604	\$ 6,235,604
		=====	=====

### 6. NOTE PAYABLE BANK

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, 2011, bears interest at the 30 Day LIBOR plus 250 basis points (approximately 5.0% at June 30, 2008) and is secured by our trade receivables, inventory and intangible assets. As of each year-end,

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

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 June 30, 2008, we were obligated under this arrangement in the amount of \$2,900,000.

### 7. LONG-TERM DEBT

Long-term debt at June 30, 2008 consisted of the following:

The Company is obligated pursuant to capital leases financed through Industrial Development Bonds. Such obligations were incurred during 1997 and 2002 in connection with building and equipment expansion at the Company's Alabama manufacturing and distribution facility. Both bear interest at tax-free rates that adjust weekly. At June 30, 2008, \$1,275,000 and \$2,780,000 were outstanding attributable to the 1997 and 2002 series, respectively. During the six months ended June 30, 2008 interest rates ranged between 1.5% and 3.7%. Principal and accrued interest retiring the underlying bonds are payable quarterly through March, 2012 and July, 2017 for the 1997 and 2002 series, respectively. Repayment of the bonds is guaranteed by a Letter of Credit issued by the Company's primary commercial bank. Security for the Letter of Credit is a priority first mortgage on the Kinpak facility and manufacturing equipment.

The Company, through its subsidiary, Kinpak Inc., is obligated pursuant to various capital lease agreements covering equipment utilized in the Company's Alabama plant. Such obligations, aggregating approximately \$32,529 at June 30, 2008, have varying maturities through 2012 and carry interest rates ranging from 7% to 12%.

During April 2005 we entered into a financing obligation with Regions Bank whereby they advanced the Company \$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 June 30, 2008 were approximately \$183,346 and 5% per annum, respectively) through maturity on April 15, 2010.

The composition of these obligations at June 30, 2008 and December 31, 2007 were as follows:

	Current Portion		Long Term Por	
	2008	2007	2008	
	----	----	----	
Industrial Development Bonds	\$460,000	\$460,000	\$3,595,000	\$
Notes payable	99,996	99,996	83,350	
Capitalized equipment leases	29,038	29,910	27,776	
	-----	-----	-----	
	\$589,034	\$589,906	\$3,706,126	\$
	=====	=====	=====	=

Required principal payment obligations attributable to the foregoing are tabulated below:

Twelve month period ending June 30, :	
2009	\$ 589,034
2010	553,599
2011	469,795
2012	462,732
2013	440,000
Thereafter	1,780,000

Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

Total	----- \$4,295,160 =====
-------	-------------------------------

8. RELATED PARTY TRANSACTIONS

At June 30, 2008 and December 31, 2007, the Company had amounts receivable from and payable to affiliated companies, which are directly or beneficially owned by the Company's president, aggregating a net receivable of approximately \$210,944 and \$109,310 respectively. Such amounts result from sales to the affiliates, allocations of expenses incurred by the Company on the affiliates' behalf and funds advanced to or from the Company.

Sales to such affiliates aggregated approximately \$298,679 and \$270,934 during the six months ended June 30, 2008 and 2007, and \$103,279 and \$74,256 for the three months ended June 30, 2008 and 2007, respectively.

9

Commitments:

On May 1, 2008, the Company renewed for ten years the existing lease for approximately 12,700 square feet of office and warehouse facilities in Fort Lauderdale, Florida from an entity owned by a certain officer of the Company. The lease required a minimum rental of \$94,800 plus applicable taxes for the first year and provides for a maximum 2% increase on the anniversary of the lease throughout the term, which has been waived through December 31, 2008. Additionally, the landlord is entitled to its pro-rata share of all taxes, assessments, and any other expenses that arise from ownership. Rent charged to operations aggregated approximately \$53,500 during the six months ended June 30, 2008 and 2007, and \$25,100 for the three months ended June 30, 2008 and 2007.

The Company had entered into a corporate guaranty of a mortgage note obligation of such affiliate. The obligation aggregating approximately \$274,000 at December 31, 2007. The property was refinanced in the 2nd quarter 2008, without a corporate guaranty.

The following is a schedule of minimum future rentals on the non-cancelable operating leases.

Twelve month period ending June 30,:	
2009	\$ 100,823
2010	102,839
2011	104,896
2012	106,994
2013	109,134
Thereafter	558,882
	-----
Total	\$ 1,083,568
	=====

9. EARNINGS (LOSS) PER SHARE

	Three months ended June 30,		Si end
	2008	2007	2008
	----	----	----
Weighted-average common			

Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

shares outstanding	7,871,816	7,689,316	7,871,816
Dilutive effect of stock plans, other options & conversion rights	-	883,060	-
	-----	-----	-----
Diluted weighted-average shares outstanding	7,871,816	8,572,376	7,871,816
	=====	=====	=====

10. SUBSEQUENT EVENT

Subsequent to June 30, 2008 the Company entered into negotiations with one of its customers to alter the manner in which it is currently transacting business. It is intended that the Company will be allowed to manage the inventory levels at its customer's warehouses and will be paid as the the products are sold by such customer. It is further expected that this new arrangement will commence on or around October 1, 2008. However, at this time, the negotiations are not finalized and the impact of this new agreement to historical or prospective operations is not currently determinable.

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

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 that 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 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.

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:

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

See Note 1 "Summary of Accounting Policies" in the Notes to the Unaudited Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect, if any, on the Company.

### 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, 2011, bears interest at the 30 Day LIBOR plus 250 basis points (approximately 5.0% at June 30, 2008) 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 June 30, 2008, we were obligated under this arrangement in the amount of \$2,900,000.

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. 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, 2008, 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.

The bonds are marketed weekly at the prevailing rates for such tax-exempt instruments. During the six months ended June 30, 2008 and 2007 such bonds carried interest ranging between 1.5% and 3.7%, and 3.3% and 3.7%, respectively. 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 June 30, 2008 were approximately \$183,300. 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. As of June 30, 2008, the inventory value was approximately \$7,591,000, an increase of \$1,597,000. The inventory increase is a seasonal increase, in anticipation of colder weather in

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

the northern parts of the United States and the start of the Company's winterizing programs including sale of antifreeze.

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

As of June 30, 2008 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.

11

### Results of Operations:

For The Three Months Ended June 30, 2008 compared to the Three Months ended June 30, 2007

Net sales were approximately \$ 4,991,000 for the three months ended June 30, 2008 compared to \$5,434,000 for the comparative quarter 2007, a decrease of \$443,000 or 8.2%. Due to the unprecedented increase in petroleum prices, slowing economy, and the tightening credit market for the purchase of new boats, the recreational boating industry has been adversely affected. The manufacturing of new boats has slowed, with plants closures, in addition to the curtailed use of recreation boats due to high fuel prices. We believe we are well positioned when the industry recovers.

Cost of goods sold as a percentage of net sales increased to 65.8% of sales compared to 60.3% for the comparative 2007 quarter. This increase in the cost of goods sold percentage of 5.6 % was a result of the unprecedented increase in oil prices and the resulting increase in the Company's raw material costs that could not be fully passed on to our customers. In addition due to higher oil prices, transportation costs increased for both inbound raw materials as well as outbound freight to our customers.

Advertising and promotion was approximately \$467,000 for both comparative quarters. Management has taken initiatives to reduce spending for advertising and promotion for the balance of the year.

Selling and administrative expenses decreased approximately \$62,600 to \$1,149,000 for 2008, from \$1,190,900 for 2007. Management has taken steps to reduce spending. Cost savings were realized in compensation expense as well as computer consulting services.

Interest expense decreased to approximately \$95,000 for the quarter ended June 30, 2008 compared to the corresponding quarter in 2007. Reduced borrowings and interest rates decreased interest expense 10% or approximately \$10,600.

Our net loss for the quarter ended June 30, 2008 amounted to approximately \$18,000 compared to a net income of \$395,000 for the comparable period in 2007. The Company has a net tax expense for the quarter of approximately \$9,000, as a result of tax accruals.

For the Six Months Ended June 30, 2008 Compared To The Six Months Ended June 30, 2007

Net sales were approximately \$8,736,000 for the six month period ending June 30, 2008 compared to approximately \$9,456,000 for the 2007 comparative

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

period, a decrease of approximately \$720,000 or 7.6%. The decrease in sales for the six month period as discussed above in the current quarter MD&A narrative is related to unprecedented higher oil prices and tightened credit for the purchase of new boats, resulting in less of the Company's products being sold to boat manufacturers and less products sold at retail due to reduced usage of recreational boats from higher fuel prices.

Cost of goods sold as a percentage of sales increased to 70.5% of sales compared to 64.7% for the comparative 2007 six month period. As discussed above in the quarterly narrative the increase in cost of goods sold percentage of 5.6 % was a result of the unprecedented increase in oil prices and the resulting increase in the Company's raw material costs that could not be fully passed on to our customers. In addition due to higher oil prices, transportation costs increased for both inbound raw materials as well as outbound freight to our customers.

Advertising and promotion was approximately \$670,000 compared to \$674,000 for the comparative period of 2007. Management has taken advantage of reduced advertising rates for unsold space and will continue to avail itself of this avenue for advertising Starbrite products for the balance of the year.

Selling and administrative expenses decreased to approximately \$2,076,000 for the six months ended June 30, 2008 compared to \$2,225,000 for the six months ended June 30, 2007, which corresponds to a decrease of \$149,000 or 6.7%. The significant component of this decrease was caused by a reduction of commission expense in relation with reduced sales volume as well as reduced general and administrative compensation expense.

Interest expense for 2008 decreased approximately \$43,000 when compared to the same six month period of 2007. This principally resulted from reduced borrowings and interest rates for the comparative periods.

The loss was approximately \$224,000 for the six months ended June 30, 2008 compared to a net income of approximately \$231,460 for the six months ended June 30, 2007.

12

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

Not Applicable

### Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: The Company has carried out an evaluation under the supervision of management, including the President and Chief Executive Officer ("CEO") and the Vice President - Finance and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of its disclosure controls and procedures. Based on that evaluation, our CEO and CFO have concluded that, as of June 30, 2008, our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting.

No change in our internal control over financial reporting (as defined in



## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the most recent fiscal quarter that has materially affected, or 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

Not Applicable

#### Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds:

Not Applicable

#### Item 3. - Defaults Upon Senior Securities:

Not Applicable

#### Item 4 - Submission of Matters to Vote of Security Holders:

On June 20, 2008, at our annual meeting of shareholders, nine directors; Peter G. Dornau, Edward Anchel, Jeffrey S. Barocas, Sonia B. Beard, Greg Dornau, William Dudman, James M. Kolisch, Laz L. Schneider and John B. Turner were elected, shareholders ratified and approved the 2008 Incentive Stock Option Plan and the 2008 Non-Qualified Stock Option Plan and approved Berenfeld, Spritzer, Shechter & Sheer, Certified Public Accountants & Consultants, as independent auditors for the year ending December 31, 2008.

The tabulation of voting for the foregoing was as follows:

	For	Against	Ab
Election of Directors	6,354,240	-	
Approve 2008 Incentive Stock Option Plan	5,347,737	86,518	
Approve 2008 Non-Qualified Stock Option Plan	5,347,283	87,104	
Ratify appointment of Berenfeld, Spritzer, Shechter & Sheer as independent CPA through December 31, 2008	6,355,873	2,190	

#### Item 5 - Other Matters - Not applicable

13

#### 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

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

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

### 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: August 12, 2008

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

/s/ Jeffrey S. Barocas  
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 June 30, 2008;

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 we 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.

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

## Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

(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: August 12, 2008

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

15

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 June 30, 2008;

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 we 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;

Edgar Filing: OCEAN BIO CHEM INC - Form 10-Q

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.

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: August 12, 2008

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

16

Exhibit 32.1

CERTIFICATION

Pursuant to 18U.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 June 30, 2008 (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: August 12, 2008

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

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

