

OCEAN BIO CHEM INC
Form 10-K
March 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

Commission File Number 000-11102

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
(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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

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 registrant has submitted electronically and posted on its corporate Website, if any every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant at June 28, 2013 was \$7,130,201. For purposes of making this computation only, all executive officers, directors and beneficial owners of more than five percent of the registrant's Common Stock are deemed to be affiliates.

At March 31, 2014, 8,800,314 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, which will be filed not later than April 30, 2014, are incorporated by reference in Part III of this report.

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
<u>PART</u>	
<u>I</u>	
<u>Item 1. Business</u>	1
<u>Item Risk Factors</u>	4
<u>1A.</u>	
<u>Item Unresolved Staff Comments</u>	5
<u>1B.</u>	
<u>Item 2. Properties</u>	5
<u>Item 3. Legal Proceedings</u>	5
<u>Item 4 Mine Safety Disclosures</u>	5
<u>PART</u>	
<u>II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	6
<u>Item 6. Selected Financial Data</u>	6
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	6
<u>Item Quantitative and Qualitative Disclosures about Market Risk</u>	10
<u>7A.</u>	
<u>Item 8. Financial Statements and Supplementary Data</u>	10
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	10
<u>Item Controls and Procedures</u>	10
<u>9A.</u>	
<u>Item Other information</u>	11
<u>9B.</u>	
<u>PART</u>	
<u>III</u>	
<u>Item Directors, Executive Officers and Corporate Governance</u>	11
<u>10.</u>	
<u>Item Executive Compensation</u>	11
<u>11.</u>	
<u>Item Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	11
<u>12.</u>	
<u>Item Certain Relationships and Related Transactions, and Director Independence</u>	11
<u>13.</u>	
<u>Item Principal Accounting Fees and Services</u>	11
<u>14.</u>	
<u>PART</u>	
<u>IV</u>	
<u>Item Exhibits, Financial Statements Schedules</u>	12
<u>15.</u>	
<u>Signatures</u>	14

Forward-looking Statements:

Certain statements contained in this Annual Report on Form 10-K, including without limitation, our ability to locate substitute manufacturing facilities in the event arrangements with any third party manufacturer are discontinued, our ability to renew or replace our revolving credit facility, anticipated advertising and promotional expense in 2014, our ability to provide required capital to support inventory levels, the effect of price increases in raw materials that are petroleum or chemical based or commodity chemicals on our margins, and the sufficiency of funds provided through operations and existing sources of financing to satisfy our cash requirements constitute forward-looking statements. 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 "believe," "may," "will," "expect," "anticipate," "intend," or "could," including the negative or 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 to be materially different from those expressed or implied by such forward-looking statements. Factors that may affect these results include, but are not limited to, the highly competitive nature of our industry; reliance on certain key customers; changes in consumer demand for marine, recreational vehicle and automotive products; advertising and promotional efforts; exposure to market risks relating to changes in interest rates, foreign exchange rates, prices for raw materials that are petroleum or chemical based and other factors.

PART I

Item 1. Business

General:

We are principally engaged in the manufacturing, marketing and distribution of a broad line of appearance, performance, and maintenance products for the marine, automotive, power sports, recreational vehicle and outdoor power equipment markets, under the Star brite®, Star Tron®, and other trademarks within the United States of America and Canada. In addition, we produce private label formulations of many of our products for various customers and provide custom blending and packaging services for these and other products. Unless, the context indicates otherwise, we sometimes refer to Ocean Bio-Chem, Inc. and its consolidated subsidiaries as “the Company,” “we” or “our.”

Ocean Bio-Chem, Inc. was incorporated in 1973 under the laws of the state of Florida. In 1981, we purchased, from Peter G. Dornau and Arthur Spector, the co-founders of the Company, rights to the Star brite® trademark and related products for the United States and Canada. Mr. Dornau, our Chairman, President and Chief Executive Officer, has retained rights to these assets with respect to all other geographic areas. Accordingly, products that we manufacture and are sold outside of the United States and Canada are purchased from us and distributed by two companies owned by Mr. Dornau. Net sales to the two companies in 2013 totaled approximately \$1,834,000, or 5.6% of our net sales. See Note 9 to the consolidated financial statements included in this report for additional information.

On May 10, 2010, the Company announced the formation of OdorStar Technology LLC (“OdorStar”), a joint venture between the Company and BBL Distributors, LLC. OdorStar owns patents that relate to a formula and delivery system, for use with products containing chlorine dioxide, designed to safely prevent and eliminate all types of odors relating to mold, mildew, and other sources of unpleasant odors. The Company and BBL Distributors LLC, the members of OdorStar, share equally in profits or losses from OdorStar, although we also have royalty rights, which we purchased in 2013, under which OdorStar pays us royalties with respect to sales of products encompassing the patented technology. See Note 4 to the consolidated financial statements included in this report for additional information. Because the Company manages OdorStar, it has consolidated OdorStar in its financial statements.

Products:

The products that we manufacture and market include the following:

Marine: Our marine line consists of polishes, cleaners, protectants and waxes under the Star brite® brand name, enzyme fuel treatment under the Star Tron® brand name, and private label products. The marine line also includes motor oils, boat washes, vinyl cleaners, protectants, teak cleaners, teak oils, bilge cleaners, hull cleaners, silicone sealants, polyurethane sealants, polysulfide sealants, gasket materials, lubricants, antifouling additives and anti-freeze coolants. In addition, we manufacture a line of brushes, poles, tie-downs and other related marine accessories.

Automotive: We manufacture a line of automotive products under the Star brite® and Star Tron® brand names. The automotive line includes fuel treatments for both gas and diesel engines, motor oils, greases and related items. Our Star Tron® enzyme fuel treatment is designed to eliminate and prevent engine problems associated with fuel containing ethanol. It also increases fuel economy by cleaning the fuel delivery system and facilitating more complete and uniform combustion. In addition, we produce anti-freeze and windshield washes under the Star brite® brand and under private labels for customers. We also produce automotive polishes, cleaners and other appearance items.

Recreational Vehicle/Power Sports: We also market Star Tron® fuel treatment to the recreational vehicle market, including snow mobiles, all terrain vehicles and motorcycles. For power sports enthusiasts, Star Tron® provides a viable solution to a number of problems associated with E-10 fuel, which is fuel containing 10% ethanol. Other recreational vehicle/power sports products include cleaners, polishes, detergents, fabric cleaners and protectors, silicone sealants, waterproofers, gasket materials, degreasers, vinyl cleaners and protectors, toilet treatment fluids and anti-freeze/coolant.

Outdoor Power Equipment/ Lawn & Garden: We market Star Tron® as a solution to help rectify a number of operating engine problems in commercial lawn equipment and other home and garden power equipment associated with E-10 fuel.

Contract Filling and Blow Molded Bottles: We blend and package a variety of chemical formulations to our customers' specifications. In addition, we manufacture for sale to various customers assorted styles of both PVC and HDPE blow molded bottles.

Mold/Mildew Odor Control: We manufacture and market a variety of products under the Star brite® name that help prevent and eliminate all types of mold, mildew, and other unpleasant odors, using OdorStar's patented delivery system. Our odor control products are effective for homes, automobiles, boats and recreational vehicles.

Although our products are utilized for different types of vehicles and boats, and for home care, we believe our operations constitute one industry segment.

Manufacturing: We produce the majority of our products at the manufacturing facilities of our subsidiary, Kinpak, Inc. ("Kinpak"), in Montgomery, Alabama. In addition, we contract with various unaffiliated companies located in the northeastern and mid-western areas of the country to manufacture our other products, which are manufactured to our specifications using our provided formulas. Each third party manufacturer enters into a confidentiality agreement with us.

We purchase raw materials from a variety of suppliers; all raw materials used in manufacturing are readily available from alternative sources. We design our own packaging and supply our outside manufacturers with the appropriate design or packaging. We believe that our internal manufacturing capacity and our arrangements with our current outside manufacturers are adequate for our present needs.

In the event that arrangements with any third party manufacturer are discontinued, we believe that we will be able to locate substitute manufacturing facilities without a substantial adverse effect on our manufacturing and distribution.

Marketing and Significant Customers: Our branded and private label products are sold through national retailers such as Wal-Mart, Tractor Supply, West Marine and Bass Pro Shops. We also sell to national and regional distributors that resell our products to specialized retail outlets. Sales to each of two customers exceeded 10% of our consolidated net revenues for the year ended December 31, 2013 and constituted an aggregate of approximately 39% and 37% of consolidated net revenues for the years ended December 31, 2013 and 2012, respectively. Sales to our five largest unaffiliated customers for the years ended December 31, 2013 and 2012 amounted to approximately 49% and 49% of our consolidated net sales, respectively, and at December 31, 2013 and 2012, outstanding accounts receivable balances from our five largest unaffiliated customers aggregated approximately 31% and 23% of our consolidated accounts receivable, respectively.

We market our products through both internal salesmen and external sales representatives who work on an independent contractor commission basis. Our personnel also participate in sales presentations and trade shows. In addition, we market our brands and products through advertising campaigns in national magazines, television, newspapers and through product catalogs. Our products are distributed primarily from Kinpak's manufacturing and distribution facility in Montgomery, Alabama. Since 2008, we have participated in a vendor managed inventory program with one major customer.

Backlog, seasonality, and selling terms: We had no significant backlog of orders at December 31, 2013. We generally do not give customers the right to return product. The majority of our products is non-seasonal and is sold throughout the year. Normal trade terms offered to credit customers range from 30 to 60 days. However, at times we offer extended payment terms or discount arrangements as purchasing incentives to customers. These initiatives do not materially affect customary margins.

Competition:

Competition with respect to our principal product lines is described below. The principal elements of competition affecting all of our product lines are brand recognition, price, service and the ability to deliver products on a timely basis.

Marine: We have several national and regional competitors in the marine marketplace. We do not believe that any competitor or small group of competitors hold a dominant market share. We believe that we can increase or maintain our market share through expenditures directed to our present advertising and distribution channels.

Automotive: There are a large number of companies, both national and regional, that compete with us. Many are more established and have greater financial resources than we do. While our market share is small, the total market size is substantial. We believe that we have established a reasonable market share through our present advertising and distribution channels, considering the large size of this market.

Recreational Vehicle/Power Sports: We compete with national and regional competitors. We do not believe that any competitor or small group of competitors hold a dominant market share. We believe that we can increase or maintain our market share by utilizing similar advertising and distribution channels to those we use in the marine market.

Outdoor Power Equipment/Lawn & Garden: We compete with several established national and regional competitors. We do not believe that any competitor or small group of competitors hold a dominant market share. We have attempted to make inroads in this market by emphasizing Star Tron®'s unique formulation and by increasing our advertising and attendance at trade shows.

Trademarks: We have obtained registered trademarks for Star brite®, Star Tron® and other trade names used on our products. We view our trademarks as significant assets because they provide product recognition. We believe that our intellectual property is protected, but we cannot assure that our intellectual property rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged.

Patents: In 2010, OdorStar acquired an interest in patents relating to a delivery system, for use with products containing chlorine dioxide, designed to safely prevent and eliminate all types of odors relating to mold, mildew, and other unpleasant odors. The patents expire in 2022.

New Product Development: We continue to develop specialized products for the marine, automotive, recreational vehicle/power sports and outdoor power equipment/lawn and garden markets. Expenditures for new product development have not been significant and are charged to operations in the year incurred.

Personnel: At December 31, 2013, we had 114 full-time employees. The following table provides information regarding personnel working for the Company and its subsidiaries at December 31, 2013:

Location	Description	Full-time Employees
Fort Lauderdale, Florida	Administrative, sales, and marketing	32
Fort Lauderdale, Florida	Manufacturing and distribution	7
Montgomery, Alabama	Manufacturing and distribution	75
		114

Item 1A. Risk Factors

If we do not compete effectively, our business will suffer.

We confront aggressive competition in the sale of our products. In each of the markets in which we sell our products, we compete with a number of national and regional competitors. Competition in the automotive market is particularly intense, with many national and regional companies marketing competitive products. Many of our competitors in the automotive market are more established and have greater financial resources than we do. Our inability to successfully compete in our principal markets would have a material adverse effect on our financial condition, results of operations and cash flows.

Economic conditions can adversely affect our business.

We are subject to risks arising from adverse changes in general domestic and global economic conditions, including recession or economic slowdown and disruption of credit markets, which may impair the ability of our customers to satisfy obligations due to us. In addition, adverse economic conditions in recent years have adversely affected discretionary spending, which can have an indirect adverse effect on our product lines, particularly those directed to the marine and recreational vehicle markets. A continued economic slowdown or a decline in economic conditions could have a material adverse effect on our financial condition, results of operations and cash flows.

Failure to effectively utilize or successfully assert intellectual property rights could materially adversely affect our competitiveness.

We rely on trademarks and trade names in connection with our products, the most significant of which are Star brite® and Star Tron®. OdorStar also owns patents we consider important to our business. We rely on trademark, trade secret, patent and copyright laws to protect our intellectual property rights. We cannot assure that these intellectual property rights will be effectively utilized or, if necessary, successfully asserted. There is a risk that we will not be able to obtain and perfect our own intellectual property rights, or, where appropriate, license from others intellectual property rights necessary to support new product introductions. Our intellectual property rights, and any additional rights we may obtain in the future, may be invalidated, circumvented or challenged in the future. In this regard, in 2013, OdorStar and Kinpak pursued a patent infringement lawsuit with respect to OdorStar's U.S. patent in the United States District Court for the Southern District of Florida, but the Court granted the defendants' motion for summary judgment. OdorStar and Kinpak are appealing the judgment of the Court. Our failure to perfect or successfully assert intellectual property rights could make us less competitive and could have a material adverse effect on our financial condition, results of operations and cash flows.

Environmental matters may cause potential liability risks.

We must comply with various environmental laws and regulations in connection with our operations, including those relating to the handling and disposal of hazardous wastes and the remediation of contamination associated with the use and disposal of hazardous substances. A release of such substances due to accident or intentional act could result in substantial liability to governmental authorities or to third parties. In addition, we are subject to reporting requirements with respect to certain materials we use in our manufacturing operations. In January 2011, Kinpak, which owns our manufacturing facility in Montgomery, Alabama, became subject to a consent agreement and final order with the United States Environmental Protection Agency relating to its alleged failure to complete and submit certain required forms with respect to toxic and hazardous chemicals used at its facilities. Under the consent agreement and final order, Kinpak paid a civil penalty of \$110,000. It is possible that we could become subject to additional environmental liabilities in the future that could have a material adverse effect on our financial condition, results of operations and cash flows.

Our variable rate indebtedness exposes us to risks related to interest rate fluctuation and matures in July 2014.

The Company has a revolving line of credit with a variable interest rate. At December 31, 2013, the Company did not have any borrowings outstanding under the revolving line of credit. However, during 2013 the highest amount outstanding under the revolving line of credit was \$650,000. Interest on the revolving line of credit is payable at the 30 day LIBOR rate plus 1.74% per annum (unless the Company's debt service coverage ratio, as defined in the credit agreement, falls below 2.0 to 1, in which case the additional percentage will be 2.75% per annum). In no event will the interest rate be less than 2.0% per annum. If interest rates were to increase significantly, our financial condition, results of operations and cash flows could be materially adversely affected.

In addition, our current revolving line of credit agreement matures in July 2014. While we currently are in negotiations to renew or replace the line of credit facility and believe we will be able to enter into a renewal or a replacement for our current facility, we cannot assure that we will be successful in negotiating such a facility. Our failure to renew or replace our current revolving line of credit facility could adversely affect our business and liquidity.

Our Chairman, President and Chief Executive Officer is a majority shareholder who controls us, and his interest may conflict with or differ from the Company's interests.

Peter G. Dornau, our Chairman, President and Chief Executive Officer, owns approximately 54% of our Common Stock. As a result, Mr. Dornau has the power to elect all of our directors and effectively has the ability to prevent any transaction that requires the approval of our Board of Directors and our shareholders. Products that we manufacture and that are sold outside of the United States and Canada are purchased from us and distributed by two companies owned by Mr. Dornau, which we refer to as the "affiliated companies." Sales to the affiliated companies aggregated approximately \$1,834,000 and \$1,487,000 during the years ended December 31, 2013 and 2012, respectively. An affiliated company owns the rights to the Star brite® and Star Tron® trademarks and related products outside of the United States and Canada.

In addition, we provided administrative services to the affiliated companies for fees aggregating approximately \$406,000 and \$335,000 during the years ended December 31, 2013 and 2012, respectively. While the terms of the sales to the affiliated companies differed from the terms of sale to other customers, the affiliated companies bear their own warehousing, distribution, advertising, selling and marketing costs, as well as their own freight charges (we pay freight charges in connection with sales to our domestic customers on all but small orders). Moreover, we do not pay sales commissions with respect to products sold to the affiliated companies. As a result, we believe our profit margins with respect to sales to the affiliated companies are similar to the profit margins we realize with respect to sales to our larger domestic customers. Management believes that the sales to the affiliated companies did not involve more than normal credit risk or present other unfavorable features. We have entered into other transactions with entities owned by Mr. Dornau. See Note 9 to the consolidated financial statements included in this report for additional information

Trading in our Common Stock has been limited, and our stock price could potentially be subject to substantial fluctuations.

Our common stock is listed on the NASDAQ Capital Market, but trading in our stock has been limited. Our stock price could be affected substantially by a relatively modest volume of transactions.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our executive offices and one of our manufacturing facilities is located in Fort Lauderdale, Florida and are leased from an entity controlled by our Chairman, President and Chief Executive Officer. The lease covers approximately 12,700 square feet of office, manufacturing, and warehouse space. See Note 10 to the consolidated financial statements included in this report for additional information.

We own Kinpak's Alabama manufacturing facility, which currently contains approximately 300,000 square feet of office, plant and warehouse space on 20 acres of land. We also lease a 1.5 acre docking facility on the Alabama River, located approximately eleven miles from Kinpak's facility.

Item 3. Legal Proceedings

On November 26, 2013, OdorStar and Kinpak filed a Second Amended Complaint in the United States District Court for the Southern District of Florida, amending a complaint initially filed on January 13, 2013. The Second Amended Complaint was filed against SMM Distributors LLC (now defunct) d/b/a Biocide Systems, and SMM Manufacturing,

Inc. (collectively, "Biocide"). The Second Amended Complaint alleged that Biocide manufactured, used, sold and continues to sell an odor eliminating product that infringes OdorStar's U.S. patent relating to OdorStar's delivery system for use with products containing chlorine dioxide. Biocide denied the allegations of the Second Amended Complaint, and both the plaintiffs and defendants filed motions for summary judgment. On January 27, 2014, the Court granted the defendants' motion for summary judgment and denied the plaintiffs' motion.

OdorStar and Kinpak have appealed the judgment to the United States Court of Appeals for the Eleventh Circuit. The appeal is pending.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Capital Market under the symbol OBCI. A summary of the high and low sales prices during each quarter of 2013 and 2012 is presented below.

		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2013	High	\$ 3.24	\$ 3.23	\$ 3.19	\$ 2.70
	Low	\$ 2.13	\$ 2.45	\$ 2.40	\$ 2.20
2012	High	\$ 2.78	\$ 2.59	\$ 2.59	\$ 2.50
	Low	\$ 2.01	\$ 1.83	\$ 1.76	\$ 1.81

We had 133 record holders of our Common Stock at December 31, 2013. We believe that there are approximately 900 additional beneficial holders of our Common Stock, based on information obtained from our transfer agent and from broker-dealers that hold shares on behalf of their clients.

On March 18, 2014, the Board of Directors of Ocean Bio-Chem, Inc. declared a special dividend of \$0.05 per share payable on April 15, 2014 to shareholders of record on April 1, 2014. This is the first time the Company will pay a cash dividend.