

OCEAN BIO CHEM INC
Form 10-Q
November 12, 2010

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 September 30, 2010

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

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

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

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

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

The number of shares of the Registrant's common stock outstanding as of November 12, 2010, was 7,853,613.

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
INDEX

Description	Page
Part I – Financial Information:	
<u>Item 1. – Financial Statements:</u>	3
<u>Condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009</u>	3
<u>Condensed consolidated statements of operations for the three months and nine months ended September 30, 2010 and 2009</u>	4
<u>Condensed consolidated statements of comprehensive income for the three months and nine months ended September 30, 2010 and 2009</u>	5
<u>Condensed consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009</u>	6
<u>Notes to condensed consolidated financial statements</u>	7-14
<u>Item 2. – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14-17
<u>Item 3. – Quantitative and Qualitative Disclosures about Market Risk</u>	17
<u>Item 4. – Controls and Procedures</u>	17
Part II – Other Information:	
<u>Item 1. – Legal Proceedings</u>	17
<u>Item 1A. – Risk Factors</u>	17
<u>Item 2. – Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
<u>Item 6. – Exhibits</u>	17
<u>Signatures</u>	18
<u>Certifications</u>	19-21

Index

PART I - FINANCIAL INFORMATION

Item 1. – Financial Statements

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

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash	\$642,977	\$494,973
Trade accounts receivable net of allowance for doubtful accounts of approximately \$131,800 and \$61,700 at September 30, 2010 and December 31, 2009, respectively	5,209,540	2,144,265
Inventories, net	8,096,231	6,663,246
Prepaid expenses and other current assets	385,565	504,384
Total Current Assets	14,334,313	9,806,868
Property, plant and equipment, net	5,480,672	5,464,356
Other Assets:		
Trademarks, trade names and patents, net	947,814	330,439
Due from affiliated companies, net	310,865	237,172
Other assets	82,314	153,224
Total Other Assets	1,340,993	720,835
Total Assets	\$21,155,978	\$15,992,059
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable - trade	\$2,137,644	\$1,741,309
Revolving line of credit	2,450,000	250,000
Current portion of long term debt	492,435	513,053
Income taxes payable	683,977	222,055
Accrued expenses payable	1,087,256	969,932
Total Current Liabilities	6,851,312	3,696,349
Long term debt, less current portion	2,633,721	2,937,206
Total Liabilities	9,485,033	6,633,555
Commitments and contingencies	-	-
Shareholders' Equity:		
Common stock - \$.01 par value, 10,000,000 shares authorized; 8,205,116 and 8,053,816 shares issued at September 30, 2010 and December 31, 2009, respectively	82,051	80,538
Additional paid in capital	8,567,104	8,194,917
Less cost of common stock in treasury, 351,503 shares at September 30, 2010 and December 31, 2009, respectively	(288,013)	(288,013)
Foreign currency translation adjustment	(272,505)	(277,025)
Retained earnings	3,265,811	1,648,087
Total Shareholders' Equity of Ocean Bio-Chem., Inc. and Subsidiaries	11,354,448	9,358,504

Noncontrolling interest	316,497	-
Total Shareholders' Equity	11,670,945	9,358,504
Total Liabilities and Shareholders' Equity	\$21,155,978	\$15,992,059

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

3/18

Index

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gross sales	\$9,530,210	\$9,629,794	\$22,621,021	\$19,940,251
Less: discounts, returns, and allowances	511,188	723,942	1,050,706	1,209,047
Net sales	9,019,022	8,905,852	21,570,315	18,731,204
Cost of goods sold	5,832,968	6,186,477	13,918,067	12,597,488
Gross profit	3,186,054	2,719,375	7,652,248	6,133,716
Operating Expenses:				
Advertising and promotion	513,770	380,276	1,201,044	1,278,689
Selling and administrative	1,255,130	1,406,472	3,647,240	3,250,775
Total operating expenses	1,768,900	1,786,748	4,848,284	4,529,464
Operating income	1,417,154	932,627	2,803,964	1,604,252
Other income (expense)				
Interest expense	(33,156)	(41,463)	(101,128)	(169,694)
Other income	30,796	12,134	53,113	23,705
Income before income taxes	1,414,794	903,298	2,755,949	1,458,263
Provision for income taxes	624,605	331,805	1,199,305	627,483
Net income	790,189	571,493	1,556,644	830,780
Loss attributable to noncontrolling interests	7,491	-	61,080	-
Net income attributable to Ocean-Bio Chem, Inc.	\$797,680	\$571,493	\$1,617,724	\$830,780
Income per common share – basic attributable to Ocean-Bio Chem, Inc. common shareholders	\$0.10	\$0.07	\$0.21	\$0.11
Income per common share – diluted attributable to Ocean-Bio Chem, Inc. common shareholders	\$0.09	\$0.07	\$0.19	\$0.11
Weighted average shares - basic	7,853,613	7,704,813	7,768,158	7,665,757
Weighted average shares - diluted	8,647,937	7,777,101	8,458,728	7,682,452

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

Index

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net Income	\$790,189	\$571,493	\$1,556,644	\$830,780
Foreign currency translation adjustment	(2,348)	1,558	4,520	1,205
Comprehensive income	787,841	573,051	1,561,164	831,985
Comprehensive loss attributable to noncontrolling interests	7,491	-	61,080	-
Comprehensive income attributable to Ocean-Bio Chem, Inc.	\$795,332	\$573,051	\$1,622,244	\$831,985

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

Index

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(UNAUDITED)

	2010	2009
Cash flows from operating activities:		
Net income attributable to Ocean Bio-Chem, Inc.	\$1,617,724	\$830,780
Adjustment to reconcile net income to net cash provided by operations:		
Loss attributable to noncontrolling interest	(61,080)	-
Depreciation and amortization	514,344	535,297
Stock based compensation	355,558	244,917
Other operating non cash items	178,687	297,922
Changes in assets and liabilities:		
Accounts receivable	(3,139,605)	(2,926,678)
Inventory	(1,496,026)	(765,983)
Other assets	70,910	24,531
Prepaid expenses	118,819	(74,402)
Amounts due from affiliates	(73,693)	850,572
Accounts payable and other accrued liabilities	975,581	2,360,148
Net cash (used in) provided by operating activities	(938,781)	1,377,104
Cash flows from investing activities:		
Purchases of property, plant and equipment	(515,960)	(266,776)
Trademarks, trade names and patents, net	(177,036)	-
Contributions to joint venture	(100,427)	-
Net cash used in investing activities	(793,423)	(266,776)
Cash flows from financing activities:		
Borrowings line of credit, net	2,200,000	(800,000)
Payments on long-term debt	(324,103)	(422,147)
Proceeds from exercise of stock options	7,085	-
Net cash provided by (used in) financing activities	1,882,982	(1,222,147)
Change in cash prior to effect of exchange rate on cash	150,778	(111,819)
Effect of exchange rate on cash	(2,774)	1,720
Net increase (decrease) in cash	148,004	(110,099)
Cash at beginning of period	494,973	527,056
Cash at end of period	\$642,977	\$416,957
Supplemental disclosure of cash transactions:		
Cash paid for interest during period	\$73,627	\$169,694
Cash paid for income taxes during period	\$737,383	\$364,000
Supplemental disclosure of non-cash investing activities:		
Assets contributed to consolidated joint venture by noncontrolling partner		
Patents	\$440,339	
Inventory	22,965	
Equipment	14,700	
Total assets contributed to consolidated joint venture by noncontrolling partner	\$478,004	

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

Index

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

1. SUMMARY OF ACCOUNTING POLICIES

Interim Reporting

The accompanying unaudited condensed consolidated financial statements include the accounts of Ocean Bio-Chem, Inc. and its subsidiaries (“the Company”), all of which are wholly-owned, and a joint venture in which the Company has a controlling interest. All significant inter-company transactions and balances have been eliminated.

The unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The financial information furnished herein reflects all adjustments consisting of normal recurring items that, in our opinion, are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010, due to seasonal fluctuations in the Company’s business, changes in economic 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, 2009.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of 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 collectability of the related receivable is probable. For customers for whom the Company manages the inventory, at their location, revenue is recognized when the products are sold to a third party. Reported net sales are net of customer prompt pay discounts, contractual allowances, authorized customer returns, 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.

Collectability of accounts receivable

Included in the consolidated balance sheets at September 30, 2010 and December 31, 2009 are allowances for doubtful accounts aggregating approximately \$131,800 and \$61,700, respectively. Such amounts are based on management’s estimates of the creditworthiness of its customers, current economic conditions, and other historical information. Consolidated bad debt expense charged against operations for the nine month period ended September 30, 2010, and 2009 aggregated approximately a net expense of \$74,300 and \$153,200 respectively. At September 30, 2010 the Company had accounts receivable due from one customer totaling 34.4% and another customer totaling 16.2% of the total outstanding accounts receivable.

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 coverages and other related expenses.

7/18

Index

Inventories

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

Fair Value of Financial Instruments

The Company adopted ASC topic 820, "Fair Value Measurements and Disclosures" (ASC 820), formerly SFAS No. 157 "Fair Value Measurements," effective January 1, 2009. ASC 820 defines "fair value" as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There was no impact relating to the adoption of ASC 820 to the Company's financial statements.

ASC 820 also describes three levels of inputs that may be used to measure fair value:

- Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial instruments consist principally of cash, accounts receivable, bank line of credit, prepaid expenses, accounts payable and accrued liabilities. The carrying amounts of such financial instruments in the accompanying balance sheets approximate their fair values due to their relatively short-term nature. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities. The carrying amounts approximate fair value. It is management's opinion that the Company is not exposed to any significant currency or credit risks arising from these financial instruments.

Noncontrolling Interest

Noncontrolling interest represents the portion of equity that we do not own in the entity that we consolidate. We account for and report our noncontrolling interest in accordance with the provisions under the Consolidation Topic of the FASB ASC 810. The Company has a controlling interest in the Odorstar Technology, LLC. joint venture. The Company and BBL Distributors, LLC. will distribute profits and losses equally, and contribute equally to the joint venture. The Company has a controlling interest because of its management of Odorstar Technology, LLC.

Subsequent events

The Company evaluates events through the date the financial statements are filed for events requiring adjustment to or disclosure in the financial statements.

On November 2, 2010, Ocean Bio-Chem, Inc. (the "Company") reached an agreement to redeem a warrant to purchase 500,000 shares of its common stock ("Warrant") from its President and CEO Peter G. Dornau (the "President").

The independent Audit Committee of the Board approved the redemption of the Warrant on November 2, 2010 for the difference between the Warrant exercise price and the closing bid price for the shares on October 15, 2010.

Index

On November 2, 2010, the full Board, with the President abstaining, authorized the redemption of the Warrant for a total redemption price of \$430,000, which price represents the difference between the exercise price of the Warrant and the closing bid price of the common stock on October 15, 2010. The closing of the redemption will occur as soon as practicable.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB amended guidance now codified as FASB ASC Topic 810, "Consolidation." FASB ASC Topic 810 changes the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. The amendment of FASB ASC Topic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. FASB ASC Topic 810 is effective for us on a prospective basis for business combinations with an acquisition date beginning in the first quarter of fiscal year 2010. At September 30, 2010 the Company included as part of its equity a non-controlling interest related to a joint venture, and at December 31, 2009, the Company did not have any non-controlling interests.

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements will cause a material impact on its financial condition or the results of its operations.

3. INVENTORIES

The composition of inventories at September 30, 2010 and December 31, 2009 are as follows:

	September 2010	December 2009
Raw materials	\$ 3,940,978	\$ 3,595,862
Finished goods	4,496,567	3,322,692
Inventories, gross	8,437,545	6,918,554
Inventory reserves	(341,314)	(255,308)
Inventories, net	\$ 8,096,231	\$ 6,663,246

At September 30, 2010 and December 31, 2009, inventory reserves included \$341,314 and \$255,308 reserve for excess, obsolete, slow moving and shrinkage inventory adjustments.

Index

4. PROPERTY, PLANT & EQUIPMENT

The Company's property, plant, and equipment consisted of the following at September 30, 2010 and December 31, 2009:

	Estimated Useful Life Years	2010	2009
Land		\$ 278,325	\$ 278,325
Building	30 years	4,402,275	4,402,275
Manufacturing and warehouse equipment	6-20 years	7,174,710	6,877,940
Office equipment and furniture	3-5 years	606,696	541,449
Construction in process		269,246	109,001
Leasehold improvement	10-15 years	122,644	122,644
		12,853,896	12,331,634
Less accumulated depreciation		7,373,224	6,867,278
Total property, plant and equipment, net		\$ 5,480,672	\$ 5,464,356

5. NONCONTROLLING INTEREST

On May 4, 2010, the Company entered into a joint venture agreement with BBL Distributors, LLC. The new joint venture OdorStar Technology, LLC. (OST) has patents and EPA registrations for a variety of chlorine dioxide products. The Company and BBL Distributors, LLC will distribute profits and losses of OST equally. The Company includes OST as part of its consolidated financial statements as a result of the Company's power to direct the activities of OST that most significantly impact its economic performance, and the potential for the results of OST's operations to be significant. The Company's condensed consolidated financial statements included \$647,000 in assets from OST at September 30, 2010 and an operating loss of \$122,000 from OST for the nine months ended September 30, 2010.

6. REVOLVING LINE OF CREDIT

During 2002, the Company secured a revolving line of credit, which provides a maximum of \$6 million financing of working capital from Regions Bank. The line carried interest based on the 30 day LIBOR rate plus 275 basis points and was collateralized by the Company's inventory, trade receivables, and intangible assets.

The line was renewed and currently matures on June 30, 2011, bears interest at the 30 Day LIBOR plus 225 basis points (2.51% at September 30, 2010) and is secured by our trade receivables, inventory, and intangible assets. Under this arrangement, the borrowing base of the loan is calculated based on 80% of the accounts receivable and 50% of the inventory values, as defined in the loan agreement. The terms, including required financial covenants relating to maintaining minimum working capital levels, maintaining stipulated debt to tangible net worth and adhering to debt coverage ratios, and collaterals were substantially unchanged. 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. At September 30, 2010

the Company was in compliance with all financial covenants of the loan agreement and below the amount of the calculated borrowing base. As of September 30, 2010, the Company was obligated to its commercial lender under this arrangement in the amount of \$2,450,000.

10/18

Index

7. LONG-TERM DEBT

In connection with the purchase and expansion of the Alabama facility, the Company secured financing with Industrial Development Bonds during 1997. 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. Both bear interest at tax-free rates that adjust weekly. The bonds were tendered in early 2009 with interest based upon markets rates at the time of issuance. The bonds were subsequently remarketed in March 2010. The interest rate is variable and priced weekly at an auction. Principal and accrued interest retiring the underlying bonds are payable quarterly through March 2012 and June 2017 for the 1997 and 2002 series, respectively. At September 30, 2010, \$510,000 and \$2,510,000 were outstanding attributable to the 1997 and 2002 series, respectively. The interest rate at September 30, 2010 is 2.0%.

Repayment of the bonds is guaranteed by a substitute irrevocable letter of credit for the 1997 bonds and an irrevocable letter of credit for the 2002 bonds, both issued by Regions Bank, the Company's primary commercial bank. Security for the Letters of Credit is a priority first mortgage on the Kinpak facility and collateral on Kinpak manufacturing equipment. Under such letters of credit agreements maturing on July 31, 2011, renewable annually, 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. The Company has been in compliance with its debt covenants since the origination of such standby letters of credit.

On March 3, 2010, the Company received notification from its remarketing agent that its City of Montgomery, AL. Series 1997 and Series 2002 Industrial Development Bonds with an approximate aggregate balance of \$3,250,000, were sold to various bondholders. As a result of the remarketing, the current interest rate will be approximately 2 percent per annum and will adjust weekly, based on prevailing trends in the tax exempt interest market. These bonds are backed with a Letter of Credit from the Regions Bank. Under the terms of the Letter of Credit, Regions Bank is obligated to pay the bondholders, if there is a default by the Company.

During 2010, the Company was obligated pursuant to various capital lease agreements covering equipment utilized in the Company's business activities. Such obligations, aggregating approximately \$106,156 at September 30, 2010, have varying maturities through 2015 and carry interest rates ranging from 7% to 14%.

The composition of these obligations at September 30, 2010 and December 31, 2009 were as follows:

	Current Portion		Long Term Portion	
	2010	2009	2010	2009
Industrial Development Bonds	\$ 460,000	\$ 460,000	\$ 2,560,000	\$ 2,905,000
Notes payable	-	33,352	-	-
Capitalized equipment leases	32,435	19,701	73,721	32,206
	\$ 492,435	\$ 513,053	\$ 2,633,721	\$ 2,937,206

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

12 month period ending September 30,

2011	\$492,435
2012	480,165
2013	459,760
2014	453,466
2015	449,480
Thereafter	790,850
Total	\$3,126,156

Index

8. RELATED PARTY TRANSACTIONS

At September 30, 2010 and December 31, 2009, the Company had amounts receivable from and payable to affiliated companies, which are directly or beneficially owned by the Company's president, aggregating a receivable of approximately \$311,000 and \$237,000 respectively. Such amounts result from sales and transfers to the affiliates, as well as allocations of management fees incurred by the Company on the affiliates' behalf, and funds advanced to or from the Company.

Sales to such affiliates, which act as foreign distributors, were sold at cost of material and labor plus an amount to cover manufacturing overhead costs and profits. The sales and transfers to affiliates aggregated approximately \$1,196,400 and \$754,900 during the nine months ended September 30, 2010 and 2009, and \$425,400 and \$153,600 for the three months ended September 30, 2010 and 2009, respectively. In addition, the affiliates are charged for their allocable share of administrative expenses of the Company. Allocable administrative fees aggregated \$180,600 and \$175,000 for the nine months period ended September 30, 2010 and 2009, respectively.

Such transactions were made in the ordinary course of business but were not made on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other customers. These related party sales are for distribution in markets that the Company does not normally sell into, and serves to increase volume and absorption of overhead in our manufacturing facility. Management believes that the sales transactions did not involve more than normal credit risk or present other unfavorable features.

A subsidiary of the company uses the services of an entity that is owned by our president to conduct product research, development and testing of products. This entity received \$28,500 and \$22,500 during the nine months periods ended September 30, 2010 and 2009 under such relationship, respectively.

A director of the Company sources most of the Company's insurance needs at an arm's length basis, and another director of the Company is primary legal counsel representing the Company.

The Company leases office and warehouse facilities from the CEO of the Company (see note 9 for details).

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 the CEO of the Company. The lease still requires a minimum rental of \$94,800 plus applicable taxes for the first year and provides for a maximum 2% increase annually on the lease throughout the term. Historically, the landlord has waived the annual allowable increase, however this may not continue in the future. Additionally, the landlord is entitled to reimbursement of all taxes, assessments, and any other expenses that arise from ownership. The landlord reserves the right under the agreement to review the terms of the lease at 3, 6, and 9 year intervals in order to make modifications for market conditions. Total rent charged to operations during the nine months period ended September 30, 2010 and 2009 amounted to approximately \$75,200 and \$90,900, respectively.

Index

10. WEIGHTED AVERAGE SHARES OUTSTANDING

	Three months ended September 30, 2010		Nine months ended September 30, 2009	
Weighted-average common shares outstanding	7,853,613	7,704,813	7,768,158	7,665,757
Dilutive effect of stock plans, other options & conversion rights	794,324	72,288	690,570	16,695
Diluted weighted-average shares outstanding	8,647,937	7,777,101	8,458,728	7,682,452

11. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following assumptions: an average risk free rate of 1.51% for the nine months ended September 30, 2010, no dividend yield for all years, expected life from 1.1 years to 9.7 years and volatility of approximately 100.1%. Stock based compensation recognized during the three months period ended September 30, 2010 attributable to options awarded to employees is approximately \$18,000. Stock based compensation recognized during the nine months period ended September 30, 2010 attributable to options awarded to employees is approximately \$70,000. As of September 30, 2010 there is approximately \$187,000 of unrecognized compensation cost related to options awarded to employees. This cost will be charged against operations as the respective options vest through 2013.

The following schedule reflects the detailed status of outstanding options under the Company's three qualified stock option plans, two non-qualified plans and a non-plan option grant as of September 30, 2010.

Plan	Date granted	Options outstanding	Exercisable options	Exercise price	Expiration date	Weighted Av. remaining life
NON-PLAN	03/25/09	115,000	115,000	0.55	03/24/14	3.5
2002 PLAN	11/06/06	113,500	89,791	0.93	11/05/11	1.1
2007 PLAN	05/17/07	167,500	114,644	1.66	05/16/12	1.7
2007 PLAN	10/08/07	2,500	1,511	1.87	10/07/12	2.1
2007 PLAN	12/17/07	154,600	87,435	1.32	12/16/12	2.2
2008 PLAN	08/25/08	156,100	66,429	0.97	08/21/13	2.9
2002 PLAN NQ	10/22/02	35,000	35,000	1.26	10/21/12	2.1
2002 PLAN NQ	06/20/03	30,000	30,000	1.03	06/19/13	2.8
2002 PLAN NQ	05/25/04	30,000	30,000	1.46	05/24/14	3.7
2002 PLAN NQ	04/03/06	40,000	40,000	1.08	04/02/16	5.6
2002 PLAN NQ	12/17/07	50,000	50,000	1.32	12/16/17	7.3
2008 PLAN NQ	01/11/09	50,000	50,000	0.69	01/10/19	8.4
2008 PLAN NQ	04/26/10	25,000	25,000	2.07	04/25/20	9.7
		969,200	734,810	1.16		3.2

Index

On April 26, 2010 each independent director received a grant of non-qualified options to acquire 5,000 shares of our common stock at an exercise price of \$2.07 per share, the fair market value of the underlying shares on the date of grant. These options are immediately exercisable and expire on April 25, 2020. There was no stock based compensation recognized during the three months period ended September 30, 2010 attributable to options awarded to directors. Stock based compensation recognized during the nine months period ended September 30, 2010 attributable to options awarded to directors is approximately \$39,000.

On June 4, 2010 we issued 144,500 shares of our common stock bearing a restricted legend to certain officers and key employees of both the Company and an affiliated company. At the date of grant the shares had a market value of \$2.08 per share. There was no stock based compensation recognized during the three months period ended September 30, 2010 attributable to these stock grants. Stock based compensation recognized during the nine months period ended September 30, 2010 attributable to these stock grants is approximately \$246,000.

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:

See Note 1 “Summary of Accounting Policies” and Note 2 “Recent Accounting Pronouncements” 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 borrowings from Regions Bank pursuant to a revolving line of credit aggregating \$6 million. On June 30, 2008 this line of credit was renewed for three years. Such line matures June 30, 2011, bears interest at the 30 Day LIBOR plus 225 basis points (2.51% at September 30, 2010) and is secured by our trade receivables, inventory, and intangible assets. 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. At September 30, 2010 the Company was in compliance with its debt covenants, and was obligated under this arrangement in the amount of \$2,450,000.

14/18

Index

In connection with the purchase and expansion of the Alabama facility, the Company secured financing with Industrial Development Bonds during 1997. 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, AL. 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.

The bonds maturity dates are respectively March 2012 and June 2017 for the 1997 and 2002 series bonds.

In order to market the Industrial Development Bonds at favorable interest rates the Company obtained a substitute irrevocable letter of credit for the 1997 issue and a new irrevocable letter of credit for the 2002 issue from Regions Bank. Under such letters of credit agreements maturing on July 31, 2011, renewable annually, 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 collateral on Kinpak manufacturing equipment.

The bonds are marketed weekly at the prevailing rates for such tax-exempt instruments. Principal and accrued interest retiring the underlying bonds are payable quarterly through March 2012 and June 2017 for the 1997 and 2002 series, respectively. During the nine months ended September 30, 2010 interest rates ranged between 2.0% and 3.25%.

Repayment of the bonds is guaranteed by a Letter of Credit issued by the Company's primary commercial bank – Regions Bank. Security for the Letter of Credit is a first mortgage on the Kinpak facility and collateral on Kinpak manufacturing equipment.

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 petroleum chemical based and commodity chemicals that are subject to fluctuating prices. The costs of petroleum and related products, major components in many of our products, have been increasingly unstable since 2008. The practical dynamics of our business do not afford us the same pricing flexibility with our customers that is available to our suppliers in that we cannot pass along price increases to our national retailers and distributors as promptly as our suppliers do.

As of September 30, 2010 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.

Results of Operations:

For the Three Months Ended September 30, 2010 compared to the Three Months ended September 30, 2009

Net sales were approximately \$9,019,000 for the three months ended September 30, 2010 compared to \$8,906,000 for the comparative quarter 2009, an increase of approximately \$113,000 or 1.3%. The reported third quarter 2010 net sales are a record quarter for the Company. As previously reported the Company continues to increase distribution to several new customers in newer markets this year, as well as increasing sales to existing customers. The Company has increased sales in a majority of its product groups, including both Star brite branded and customer private label products.

Cost of goods sold as a percentage of net sales decreased to 64.7% in 2010 from 69.5% for the comparative 2009 quarter. The decrease in the cost of sales as a percentage of sales is comprised of two primary components. The first is an improved gross margin, as a result of the sales mix with higher sales of more profitable products, in addition to the favorable effect of increased volume through our Kinpak manufacturing facilities.

15/18

Index

Advertising and promotion expenses were approximately \$514,000 compared to \$380,000 for the comparative 2009 third quarter. The increase in expenses of approximately \$134,000 is a result of timing of advertising expenditures. It is anticipated that the full year 2010 advertising expenditures will be comparable to 2009's full year advertising expenditures.

Selling and administrative expenses decreased approximately \$151,000 to \$1,255,000 from \$1,406,000, for the comparative quarter. The decreased expenses were primarily legal expenses and bad debt expense partially offset by higher expenses in non cash employee stock compensation and selling expenses including sales commissions, freight to customers travel expenses and trade show expenses.

Operating income was approximately \$1,417,000 compared to \$933,000 for the comparative 2009 third quarter, an increase of \$484,000 or 52.0%. This is a result of higher sales volume, an improved gross margin percentages and slightly lower total operating expenses.

Interest expense decreased by approximately \$8,000 for the quarter ended September 30, 2010 to \$33,000 compared to the corresponding quarter of \$41,000 in 2009. The lower interest expense is a result of both reduced debt levels and lower overall average lower interest rates on the Company's borrowings. Specifically lower interest rates attributable to the Company remarketing its Industrial Revenue Bonds in the first quarter of this year and the reduction of the interest rate by ¼ % in the Company's' line of credit facility.

Income taxes - The Company had an income tax provision for the quarter of approximately \$625,000 or 44.1% of pretax income compared to the corresponding quarter of approximately \$332,000 in 2009 or 36.7% of pretax income. The increase in the effective income tax rate is primarily attributable to the full utilization of the state of Florida income tax net operating loss carryover in 2009.

Net profit for the quarter ended September 30, 2010 was approximately \$790,000 compared to \$571,000 for the comparable period in 2009 an increase of 38.3%.

For the Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

Net sales were approximately \$21,570,000 for the nine months ended September 30, 2010 compared to \$18,731,000 for the comparative 2009 period, an increase of approximately \$2,839,000 or 15.2%. The Company increased its' sales in a majority of its product lines. In addition as discussed above the Company has expanded its customer base beyond its core marine markets and is now increasing sales to these newer customers.

Cost of goods sold as a percentage of net sales decreased to 64.5% of sales compared to 67.3% for the comparative 2009 period. This decrease in the cost of goods sold percentage of 2.8% was primarily a result of increased volume through the Company's manufacturing facilities in addition to the increased sales of higher margin products.

Advertising and promotion expenses were approximately \$1,201,000 compared to \$1,279,000 for the comparative 2009 period. The decrease in advertising expenses of approximately \$78,000 is the timing of advertising and promotion of the Company's products. As referenced above in the quarterly management discussion and analysis, the full year expenditures are not anticipated to be lower than the full year prior years advertising expenditures.

Selling and administrative expenses increased approximately \$396,000 to \$3,647,000 from \$3,251,000, for comparative periods. Variable selling expenses increased in relationship with the increased sales. These expenses include sales commissions and freight to customers. In addition, the administrative expense increase mainly resulted from an increase in non-cash stock based compensation, and the payment of performance bonuses. The Company also incurred one time organization expenditures for the joint venture of OST completed for the 9 months of \$67,000.

Operating income increased to approximately \$2,804,000 from \$1,604,000 a change of \$1,200,000 or 74.8%. This is a result of higher sales volume, higher gross margin percent, partially offset by higher operating expenses.

Interest expense decreased by approximately \$69,000 for the nine months ended September 30, 2010 to \$101,000 from \$170,000 for the corresponding 2009 period. The lower interest expense is a result of both reduced debt levels and lower overall average borrowings on the Company's line of credit, in conjunction with lower interest rates on the Company's IRB's which remarketed in the first quarter of this year.

16/18

Index

Income taxes - The Company had income tax expense for the nine months of approximately \$1,199,000 or 43.5% of pretax income compared to \$627,000 or 43.0% of pretax income, for the corresponding 2009 period.

Net profit for the nine months ended September 30, 2010 was approximately \$1,557,000 compared to \$831,000 for the comparable period in 2009 an increase of \$726,000 or 87.4%.

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 September 30, 2010, 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 Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the most recent fiscal quarter 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

None

Item 1A. – Risk Factors

Not Applicable

Item 2. – Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 6 – Exhibits

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

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

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

17/18

Index

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: November 12, 2010

/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

18/18
