

OCEAN BIO CHEM INC
Form 10-Q
May 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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

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 No.)

4041 SW 47 AVENUE
FORT LAUDERDALE, FLORIDA 33314
(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 for such shorter period that the registrant was required to submit and post such files). Yes No

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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
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

At May 15, 2013, 8,525,626 shares of the registrant's Common Stock were outstanding.

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
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PART 1-FINANCIAL INFORMATION

Item Financial Statements

1.

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

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|------------------------------------------------------------------------------------------------|----------------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 534,418 | \$ 1,508,385 |
| Trade accounts receivable less allowances of approximately \$71,000 and \$73,000, respectively | 3,205,523 | 2,931,479 |
| Receivables due from affiliated companies | 618,275 | 556,051 |
| Inventories, net | 10,087,206 | 9,256,589 |
| Prepaid expenses and other current assets | 681,354 | 530,305 |
| Deferred tax asset | 91,496 | 56,221 |
| Total Current Assets | 15,218,272 | 14,839,030 |
| Property, plant and equipment, net | 5,273,714 | 5,327,909 |
| Other Assets: | | |
| Trademarks, trade names and patents, net | 806,332 | 819,194 |
| Other assets | 23,108 | 24,350 |
| Total Other Assets | 829,440 | 843,544 |
| Total Assets | \$ 21,321,426 | \$ 21,010,483 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable – trade | \$ 1,556,373 | \$ 1,431,457 |
| Current portion of long term debt | 409,964 | 407,095 |
| Income taxes payable | 153,731 | 65,944 |
| Accrued expenses payable | 731,630 | 913,129 |
| Total Current Liabilities | 2,851,698 | 2,817,625 |
| Deferred tax liability | 280,022 | 230,478 |
| Long term debt, less current portion | 1,428,659 | 1,532,286 |
| Total Liabilities | 4,560,379 | 4,580,389 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Common stock - \$.01 par value, 12,000,000 shares authorized; 8,749,888 shares issued | 87,499 | 87,499 |
| Additional paid in capital | 8,621,815 | 8,617,081 |
| Less cost of common stock in treasury, 351,503 shares | (288,013) | (288,013) |

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| | | |
|----------------------------------------------------|---------------|---------------|
| Accumulated other comprehensive loss | (263,957) | (261,807) |
| Retained earnings | 8,370,188 | 8,021,136 |
| Total Shareholders' Equity of Ocean Bio-Chem, Inc. | 16,527,532 | 16,175,896 |
| Noncontrolling interest | 233,515 | 254,198 |
| Total Shareholders' Equity | 16,761,047 | 16,430,094 |
| Total Liabilities and Shareholders' Equity | \$ 21,321,426 | \$ 21,010,483 |

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

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

| | Three Months Ended March 31, | |
|-------------------------------------------------|---------------------------------|-------------|
| | 2013 | 2012 |
| Gross sales | \$6,651,028 | \$6,301,349 |
| Less: discounts, returns, and allowances | 338,725 | 296,634 |
| Net sales | 6,312,303 | 6,004,715 |
| Cost of goods sold | 4,071,044 | 3,862,869 |
| Gross profit | 2,241,259 | 2,141,846 |
| Operating Expenses: | | |
| Advertising and promotion | 566,811 | 465,597 |
| Selling and administrative | 1,149,522 | 1,055,593 |
| Total operating expenses | 1,716,333 | 1,521,190 |
| Operating income | 524,926 | 620,656 |
| Other income (expense) | | |
| Interest (expense) | (17,401) | (27,675) |
| Other income | - | 1,056 |
| Income before income taxes | 507,525 | 594,037 |
| Provision for income taxes | 179,156 | 240,585 |
| Net income | 328,369 | 353,452 |
| Loss attributable to noncontrolling interests | 20,683 | 10,893 |
| Net income attributable to Ocean Bio-Chem, Inc. | \$349,052 | \$364,345 |
| Earnings per common share – basic | \$0.04 | \$0.04 |
| Earnings per common share – diluted | \$0.04 | \$0.04 |
| Weighted average shares - basic | 8,398,385 | 8,106,886 |
| Weighted average shares - diluted | 8,682,108 | 8,466,020 |

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

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

| | Three Months Ended March 31, | |
|-------------------------------------------------------------|---------------------------------|------------|
| | 2013 | 2012 |
| Net Income | \$ 328,369 | \$ 353,452 |
| Other comprehensive (loss) income: | | |
| Foreign currency translation adjustment | (2,150) | 3,871 |
| Comprehensive income | 326,219 | 357,323 |
| Comprehensive loss attributable to noncontrolling interests | 20,683 | 10,893 |
| Comprehensive income attributable to Ocean Bio-Chem, Inc. | \$ 346,902 | \$ 368,216 |

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

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

| | Three Months Ended March 31, | |
|------------------------------------------------------------------------------|---------------------------------|------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 328,369 | \$ 353,452 |
| Adjustments to reconcile net income to net cash used in operating activities | | |
| Depreciation and amortization | 186,497 | 172,088 |
| Deferred income taxes | 14,269 | (2,715) |
| Stock based compensation | 4,586 | 18,923 |
| Other operating non-cash items | 11,510 | 28,704 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (272,555) | (491,457) |
| Inventories | (843,617) | (324,556) |
| Other assets | 1,242 | 4,967 |
| Prepaid expenses and other current assets | (151,049) | (22,483) |
| Receivables due from affiliated companies | (62,224) | 148,973 |
| Accounts payable and other accrued expenses | 31,204 | (296,165) |
| Net cash used in operating activities | (751,768) | (410,269) |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (119,440) | (90,242) |
| Net cash used in investing activities | (119,440) | (90,242) |
| Cash flows from financing activities: | | |
| Net borrowings under revolving line of credit | - | 700,000 |
| Payments on long-term debt | (100,758) | (100,163) |
| Net cash (used in) provided by financing activities | (100,758) | 599,837 |
| Effect of exchange rates on cash | (2,001) | 224 |
| Net (decrease) increase in cash | (973,967) | 99,550 |
| Cash at beginning of period | 1,508,385 | 585,357 |
| Cash at end of period | \$ 534,418 | \$ 684,907 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest during period | \$ 17,674 | \$ 27,209 |
| Cash paid for income taxes during period | \$ 77,100 | \$ 386,000 |

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

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
NOTES TO 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, all of which are wholly-owned, and OdorStar Technology LLC (“OdorStar”), a joint venture in which the Company has a controlling interest. All significant intercompany transactions and balances have been eliminated in consolidation. Certain prior-period data have been reclassified to conform to the current period presentation. Unless the context indicates otherwise, the term “Company” refers to Ocean Bio-Chem, Inc. and its subsidiaries

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 the opinion of management, are necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

The information included in this Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and 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 and assumptions.

2. RECENT ACCOUNTING PRONOUNCEMENTS

There have been no accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2013 that are expected to have a material impact on the Company’s financial position, results of operations or cash flows. Accounting pronouncements that became effective during the three months ended March 31, 2013 did not have a material impact on disclosures or on the Company’s financial position, results of operations or cash flows.

3. INVENTORIES

The composition of inventories at March 31, 2013 and December 31, 2012 are as follows:

| | March 31, 2013 | December 31, 2012 |
|--------------------|-------------------|-------------------------|
| Raw materials | \$ 4,147,214 | \$ 4,055,812 |
| Finished goods | 6,224,986 | 5,472,771 |
| Inventories, gross | 10,372,200 | 9,528,583 |
| Inventory reserves | (284,994) | (271,994) |
| Inventories, net | \$ 10,087,206 | \$ 9,256,589 |

The inventory reserves shown in the table above reflect slow moving and obsolete inventory.

The Company operates a vendor managed inventory program with one of its customers to improve the promotion of the Company's products. The Company manages the inventory levels at this customer's warehouses and recognizes revenue as the products are sold by the customer. The inventories managed at the customer's warehouses amounted to approximately \$518,000 and \$487,000 at March 31, 2013 and December 31, 2012, respectively.

4. PROPERTY, PLANT, & EQUIPMENT

The Company's property, plant and equipment consisted of the following at March 31, 2013 and December 31, 2012:

| | Estimate Useful Life | March 31, 2013 | December 31, 2012 |
|---------------------------------------|-------------------------|-------------------|----------------------|
| Land | | \$ 278,325 | \$ 278,325 |
| Building and improvements | 30 years | 4,492,197 | 4,489,377 |
| Manufacturing and warehouse equipment | 6-20 years | 8,069,841 | 7,982,669 |
| Office equipment and furniture | 3-5 years | 759,004 | 738,584 |
| Construction in process | | 20,422 | 249,027 |
| Leasehold improvements | 10-15 years | 328,015 | 122,644 |
| Automobile | 3 years | 32,263 | - |
| Property, plant and equipment, gross | | 13,980,067 | 13,860,626 |
| Less accumulated depreciation | | (8,706,353) | (8,532,717) |
| Property, plant and equipment, net | | \$ 5,273,714 | \$ 5,327,909 |

5. NONCONTROLLING INTEREST

On May 10, 2010, the Company and BBL Distributors, LLC formed OdorStar. OdorStar owns patents that relate to a formula and delivery system, for use with products containing chlorine dioxide, designed to safely prevent and eliminate odors relating to mold, mildew and other sources of unpleasant odors. The Company and BBL Distributors, LLC share equally in profits or losses from OdorStar. Because the Company manages OdorStar, it has consolidated OdorStar in its financial statements. The Company's condensed consolidated financial statements include

approximately \$502,000 and \$496,000 in assets and \$23,000 and \$7,000 in liabilities from OdorStar at March 31, 2013 and December 31, 2012, respectively. The Company's condensed consolidated financial statements also include OdorStar's operating losses of approximately \$41,000 and \$22,000 during the three months ended March 31, 2013 and 2012, respectively.

6. REVOLVING LINE OF CREDIT

On July 6, 2011, the Company, together with its subsidiary, Kinpak Inc. (“Kinpak”), entered into a Credit Agreement with Regions Bank (and, pursuant to an Equipment Finance Addendum to the Credit Agreement, Regions Equipment Finance Corporation (“REFCO”). Under the Credit Agreement, the Company’s revolving line of credit with Regions Bank was renewed. The terms of the revolving line of credit, as renewed, provide that the Company may borrow up to the lesser of (i) \$6 million or (ii) a borrowing base equal to 80% of eligible accounts receivable plus 50% of eligible inventory. 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 (net profit plus taxes, interest, depreciation, amortization and rent expense divided by debt service plus interest and lease/rent expense) falls below 2.0 to 1, in which case the interest is payable at the 30 day LIBOR rate plus 2.75% per annum). In no event will the interest rate be less than 2.0% per annum. Outstanding amounts under the revolving line of credit are payable on demand. If no demand is made, the Company may repay and reborrow funds from time to time. The Company’s obligations under the revolving line of credit are secured by the Company’s accounts receivable and inventory, as well as real property and equipment at Kinpak’s Montgomery, Alabama facility. The Company’s obligations under the revolving line of credit and the term loan discussed in footnote 7 below are cross-collateralized. Interest on amounts borrowed under the revolving line of credit is payable in monthly installments on outstanding average balances, with all outstanding principal and interest payable on July 6, 2014. The Credit Agreement includes financial covenants requiring a minimum debt service coverage ratio of 1.75 to 1.00, tested on a rolling four-quarter basis, and a maximum debt to capitalization ratio (funded debt divided by the sum of total net worth and funded debt) of 0.75 to 1, tested quarterly. At March 31, 2013, the Company was in compliance with these covenants. At March 31, 2013 and December 31, 2012, we had no borrowings under the revolving line of credit.

7. LONG TERM DEBT

On July 6, 2011, under the Equipment Finance Addendum to the Credit Agreement, REFCO provided to the Company a \$2,430,000 term loan with a fixed interest rate of 3.54%. Principal and interest on the term loan are payable in equal monthly installments through July 6, 2017, the date on which the term loan matures. The proceeds of the term loan were used to pay the Company’s remaining obligations under a lease agreement relating to industrial revenue bonds used to fund the expansion of Kinpak’s facilities and acquisition of related equipment. At March 31, 2013, approximately \$1,806,000 was outstanding under the term loan.

At March 31, 2013 and December 31, 2012, the Company was obligated under various capital lease agreements covering equipment utilized in the Company’s operations. The capital leases, aggregating \$32,777 and \$37,552 at March 31, 2013 and December 31, 2012, respectively, have varying maturities through 2015 and carry interest rates ranging from 7% to 14%.

The following table provides information regarding the Company’s long term debt at March 31, 2013 and December 31, 2012:

| | Current Portion | | Long Term Portion | |
|------------------------------|-------------------|-------------------------|-------------------|-------------------------|
| | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| Term loan | \$ 392,528 | \$ 389,075 | \$ 1,413,318 | \$ 1,512,754 |
| Capitalized equipment leases | 17,436 | 18,020 | 15,341 | 19,532 |
| Total long term debt | \$ 409,964 | \$ 407,095 | \$ 1,428,659 | \$ 1,532,286 |

Required principal payments under the Company's long term obligations are set forth below:

| 12 month period ending March 31, | |
|----------------------------------|--------------|
| 2014 | \$ 409,964 |
| 2015 | 416,240 |
| 2016 | 427,036 |
| 2017 | 436,441 |
| 2018 | 148,942 |
| Total | \$ 1,838,623 |

8. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2013 and 2012, the Company sold products to companies affiliated with its Chairman, President and Chief Executive Officer. The affiliated companies distribute the products outside of the United States and Canada. The Company also provides administrative services to these companies. Sales to the affiliated companies aggregated approximately \$471,000 and \$227,000 during the three months ended March 31, 2013 and 2012, respectively. Administrative fees aggregated approximately \$102,000 and \$60,000 during the three months ended March 31, 2013 and 2012, respectively. The Company had accounts receivable from the affiliated companies in connection with the product sales and administrative services aggregating approximately \$618,000 and \$556,000 at March 31, 2013 and December 31, 2012, respectively. Transactions with the affiliated companies were made in the ordinary course of business. While the terms of sale to the affiliated companies differed from the terms applicable to other customers, the affiliated companies bear their own warehousing, distribution, advertising, selling and marketing costs, as well as their own freight charges (the company pays freight charges in connection with sales to its domestic customers on all but small orders). Moreover, the Company does not pay sales commissions with respect to products sold to the affiliated companies. As a result, the Company believes its profit margins with respect to sales to the affiliated companies are similar to the profit margins with respect to sales to its larger domestic customers. Management believes that the sales transactions did not involve more than normal credit risk or present other unfavorable features.

A subsidiary of the Company currently uses the services of an entity that is owned by the Chairman, President and Chief Executive Officer of the Company to conduct product research and development, marketing and advertising. The Company paid the entity approximately \$10,500 for each of the three month periods ended March 31, 2013 and 2012, under this arrangement.

The Company leases office and warehouse facilities in Fort Lauderdale, Florida from an entity controlled by its Chairman, President and Chief Executive Officer. The Company believes that the rental payments are below market rates. See Note 9 for a description of the lease terms.

A director of the Company is Regional Executive Vice President of an entity from which the Company sources most of its insurance needs at an arm's length competitive basis. During the three months ended March 31, 2013 and 2012, the Company paid an aggregate of approximately \$183,000 and \$149,000, respectively, in insurance premiums on policies obtained through the entity.

9. COMMITMENTS

The Company leases its executive offices and warehouse facilities in Fort Lauderdale, Florida from an entity controlled by its Chairman, President and Chief Executive Officer. On May 1, 2008, the Company renewed the lease for a term of ten years. The lease requires annual minimum base rent of \$94,800 and provides for a maximum annual 2% increase in subsequent years, although the entity has not raised the minimum rent since the Company entered into a previous lease agreement in 1998. Additionally, the leasing entity is entitled to reimbursement of all taxes, assessments, and any other expenses that arise from ownership. Each of the parties to the lease has agreed to review the terms of the lease every three years at the request of the other party. Rent expense under the lease was approximately \$25,000 for each of the three month periods ended March 31, 2013 and 2012.

The Company leases from the Alabama State Port Authority a 1.5 acre docking facility on the Alabama River, located approximately eleven miles from the Company's Alabama manufacturing facility. The lease expires on September 30, 2014, and requires the Company to pay rent and additional expenses totaling approximately \$7,800 annually.

10. EARNINGS PER SHARE

Basic earnings per share is calculated based on net income attributable to Ocean Bio-Chem, Inc. and the weighted average number of shares outstanding during the reported period. Diluted earnings per share reflect additional dilution from potential common stock issuable upon the exercise of outstanding stock options. The following table sets forth the computation of basic and diluted earnings per common share, as well as a reconciliation of the weighted average number of common shares outstanding to the weighted average number of shares outstanding on a diluted basis.

| | Three Months Ended March 31, | |
|--------------------------------------------------------------------------|---------------------------------|------------|
| | 2013 | 2012 |
| Earnings per common share -Basic | | |
| Net income attributable to OBCI | \$ 349,052 | \$ 364,345 |
| Weighted average number of common shares outstanding | 8,398,385 | 8,106,886 |
| Earnings per common share - Basic | \$ 0.04 | \$ 0.04 |
| Earnings per common share – Diluted | | |
| Net income attributable to OBCI | \$ 349,052 | \$ 364,345 |
| Weighted average number of common shares outstanding | 8,398,385 | 8,106,886 |
| Dilutive effect of employee stock options | 283,723 | 359,134 |
| Weighted average number of common shares outstanding - assuming dilution | 8,682,108 | 8,466,020 |
| Earnings per common share - Diluted | \$ 0.04 | \$ 0.04 |

The Company had no stock options outstanding during the three months ended March 31, 2013 and 2012, respectively, that were anti-dilutive and therefore not included in the diluted earnings per common share calculation.

11. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Stock compensation expense attributable to stock options was approximately \$5,000 and \$19,000 for the three months ended March 31, 2013 and 2012, respectively. There were no stock awards issued during the three months ended March 31, 2013 and 2012.

At March 31, 2013, there was approximately \$7,000 of unrecognized compensation expense related to stock options awarded to employees. This cost will be charged as compensation expense during the second and third quarter of 2013, as the stock options vest.

The following table provides information at March 31, 2013 regarding outstanding stock options under the Company's stock option plans as well as a grant made outside of the Company's stock option plans. As used in the table below, "2008 ISO" refers to the Company's 2008 Incentive Stock Option Plan, "2002 NQ" refers to the Company's 2002 Non-Qualified Stock Option Plan and "2008 NQ" refers to the Company's 2008 Non-Qualified Stock Option Plan.

| Plan | Date Granted | Options Outstanding | Exercisable Options | Exercise Price | Expiration Date | Weighted Average Remaining Life |
|----------|-----------------|------------------------|------------------------|-------------------|--------------------|------------------------------------------|
| Non Plan | 3/25/09 | 115,000 | 115,000 | \$ 0.55 | 3/24/14 | 1.0 |
| 2008 ISO | 8/25/08 | 141,400 | 107,680 | 0.97 | 8/24/13 | 0.4 |
| 2002NQ | 6/20/03 | 30,000 | 30,000 | 1.03 | 6/19/13 | 0.2 |
| 2002NQ | 5/25/04 | 30,000 | 30,000 | 1.46 | 5/24/14 | 1.2 |
| 2002NQ | 4/03/06 | 40,000 | 40,000 | 1.08 | 4/02/16 | 3.1 |
| 2002NQ | 12/17/07 | 50,000 | 50,000 | 1.32 | 12/16/17 | 4.8 |
| 2008NQ | 1/11/09 | 50,000 | 50,000 | 0.69 | 1/10/19 | 5.9 |
| 2008NQ | 4/26/10 | 25,000 | 25,000 | 2.07 | 4/25/20 | 7.2 |
| | | 481,400 | 447,680 | \$ 0.98 | | 2.2 |

Item Management's Discussion and Analysis of Financial Condition and Results of Operations

2.

Forward-looking Statements:

Certain statements contained in this Quarterly Report on Form 10-Q, including without limitation, our ability to provide required capital to support inventory levels, the effect of price increases in petroleum-based or chemical-based raw materials 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 and foreign exchange rates, and other factors.

Overview:

We are principally engaged in manufacturing, marketing and distributing 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®, StarTron® 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. We sell our products through national retailers and to national and regional distributors who, in turn, sell our products to specialized retail outlets.

Critical accounting estimates:

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for information regarding the Company's critical accounting estimates.

Results of Operations:

Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012

Net sales were approximately \$6,312,000 for the three months ended March 31, 2013 compared to approximately \$6,005,000 during the corresponding period in 2012, an increase of \$307,000 or 5.1%. The increase in sales principally results from the commencement of sales to a new automotive chain store customer, as well as increased sales of StarTron® products to winter power sport distributors and increased sales to affiliated companies (see Note 8 to the condensed consolidated financial statements included in this report). These increases were partially offset by lower sales in our marine markets due to the continued unseasonably cold weather in most parts of the United States.

Cost of goods sold and gross profit – Cost of goods sold increased by approximately \$208,000 or 5.4% to approximately \$4,071,000 during the three months ended March 31, 2013, from approximately \$3,863,000 during the same period in 2012. The increase in cost of goods sold reflects the increase in net sales. As a percentage of net sales, gross profit was approximately 35.5% and 35.7% during the three months ended March 31, 2013 and 2012,

respectively.

Gross profit increased by approximately \$99,000 for the three months ended March 31, 2013, as compared to the same period in 2012, as the result of the factors described above.

Advertising and promotion expenses increased to approximately \$567,000 for the three months ended March 31, 2013 from \$466,000 during the corresponding period in 2012, an increase of approximately \$101,000 or 21.7%. As a percentage of net sales, advertising and promotion expense was approximately 9.0% in the first quarter of 2013 compared to approximately 7.8% in the first quarter of 2012. We continue to increase advertising expenditures to increase consumer awareness of StarTron® and Star brite® products. We sponsored several television programs and ran print advertisements in several national magazines targeted to automotive, boating and engine maintenance and repair enthusiasts, as well as in specific industry magazines.

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Selling and administrative expenses increased by approximately \$94,000 or 8.9%, from approximately \$1,056,000 during the three months ended March 31, 2012 to approximately \$1,150,000 during the same period in 2013. The increase in expenses was attributable to the Company's selling activities, including sales commissions, consumer rebates and travel and entertainment expenses. As a percentage of net sales, selling and administrative expenses increased to 18.2% during the first quarter of 2013 as compared to 17.6% in the first quarter of 2012.

Interest expense decreased by approximately \$10,000 to approximately \$17,000 during the three months ended March 31, 2013, compared to approximately \$27,000 during the three months ended March 31, 2012. The decrease reflects the lower average borrowings, as we had no borrowings under our revolving line of credit during the first quarter of 2013 compared to average outstanding borrowings of approximately \$1,300,000 during the first quarter of 2012. In addition, we continue to reduce the outstanding principal on our term loan.

Operating income – As a result of the foregoing, operating income was approximately \$525,000 in the first quarter of 2013 compared to approximately \$621,000 in the 2012 period, a decrease of \$96,000 or 15.5%.

Income taxes - Our income tax expense in the first quarter of 2013 was approximately \$179,000, or 35.3% of pretax income, compared to approximately \$241,000, or 40.5% of pretax income, during the corresponding period in 2012. The lower first quarter 2013 income tax rate is consistent with our effective tax rate for the year ended December 31, 2012.

Net income and Net income attributable to Ocean Bio-Chem, Inc. - As a result of the items mentioned above, net income for the first quarter of 2013 decreased by approximately \$25,000, or 7.1%, to \$328,000 from approximately \$353,000 in the first quarter of 2012. Net income attributable to Ocean Bio-Chem, Inc. decreased by approximately \$15,000, or 4.1%, to approximately \$349,000 in the first quarter 2013, from approximately \$364,000 in 2012. Net income attributable to Ocean Bio-Chem, Inc. does not include losses of approximately \$21,000 and \$11,000, incurred during the three months ended March 31, 2013 and 2012, respectively, which are attributable to the interest of the other participant in the OdorStar joint venture.

Liquidity and capital resources:

Our cash balance was approximately \$534,000 at March 31, 2013 compared to approximately \$1,508,000 at December 31, 2012. At March 31, 2013 and December 31, 2012, we had no borrowings under our revolving line of credit.

Net cash used in operating activities during the three months ended March 31, 2013 was approximately \$752,000 compared to net cash used in operating activities of approximately \$410,000 for the three months ended March 31, 2012. The decrease is primarily due to \$316,000 in unfavorable year-over-year changes in working capital items, principally reflecting an \$844,000 increase in inventory, which was approximately \$519,000 greater than the inventory increase in the first quarter of 2012.

Net cash used in investing activities was approximately \$119,000 for the three months ended March 31, 2013 compared to approximately \$90,000 for the three months ended March 31, 2012. In both periods the cash was used for purchases of property, plant, and equipment. We continue to invest in our manufacturing facilities as we deem appropriate.

Net cash used in financing activities was approximately \$101,000 for the three months ended March 31, 2013 compared to net cash provided of approximately \$600,000 during the three months ended March 31, 2012. During the three months ended March 31, 2013, we did not have any borrowings under our revolving line of credit. During the three months ended March 31, 2012, we had net borrowings of \$700,000 under the revolving line of credit.

On July 6, 2011, we, together with our subsidiary, Kinpak Inc. (“Kinpak”), entered into a Credit Agreement with Regions Bank (and, pursuant to an Equipment Finance Addendum to the Credit Agreement, Regions Equipment Finance Corporation (“REFCO”)) under which (a) our revolving line of credit with Regions Bank was renewed, and (b) REFCO provided a new term loan in the amount of \$2,430,000, the proceeds of which were used to pay the Kinpak’s remaining lease obligations in connection with the previously outstanding 2002 Series of Industrial Development Revenue Bonds issued by the City of Montgomery, Alabama (the “2002 Bonds”). The 2002 Bonds were used to fund the expansion of Kinpak’s facilities and acquisition of related equipment.

Under the term loan, we pay principal, together with interest at the fixed rate of 3.54% per annum, in 72 consecutive monthly payments of \$37,511 over the six year period beginning on August 6, 2011, with the final payment due on July 6, 2017. In the event our debt service coverage ratio falls below 2.0 to 1, interest on the term loan will increase by 1.01% per annum. For the quarter ended March 31, 2013, our debt service coverage ratio exceeded 6.0 to 1.

The Credit Agreement defines “debt service coverage ratio“ as meaning net profit plus taxes, interest, depreciation, amortization and rent expense divided by debt service plus interest and lease/rent expense. The Credit Agreement contains various covenants, including financial covenants requiring a minimum debt coverage ratio of 1.75 to 1.00, tested on a rolling four-quarter basis, and a maximum debt to capitalization ratio (funded debt divided by the sum of total net worth and funded debt) of 0.75 to 1, tested quarterly. At March 31, 2013, we were in compliance with these covenants.

Under the renewed revolving line of credit, we may borrow up to the lesser of (i) \$6 million and (ii) a borrowing base equal to 80% of eligible accounts receivable plus 50% of eligible inventory. Interest on the revolving line of credit is payable at the 30 day LIBOR rate plus 1.74% per annum (unless our debt service coverage ratio 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. Outstanding amounts under the revolving line of credit are payable on demand. If no demand is made, we may repay and reborrow funds from time to time. Interest payments are made in monthly installments on outstanding average balances with all outstanding principal and interest payable on July 6, 2014. At March 31, 2013 there were no borrowings under our revolving line of credit.

Our obligations under the Credit Agreement are secured by our accounts receivable and inventory, as well as real property and equipment at Kinpak's Montgomery, Alabama facility.

In addition to the revolving line of credit and term loan, we have obtained financing through capital leases for both manufacturing and office equipment, totaling approximately \$32,800 and \$37,600 at March 31, 2013 and December 31, 2012, respectively.

Our sales in the Canadian market are subject to currency fluctuations relating to the Canadian dollar. We do not engage in currency hedging and address currency risk as a pricing issue. In the quarter ended March 31, 2013, we recorded approximately \$2,000 in foreign currency translation adjustments (decreasing shareholders equity by \$2,000).

During the past few years, we have introduced a number of new products. At times, new product introductions have required us to increase our overall inventory and have resulted in lower inventory turnover rates. The effects of reduced inventory turnover have not been material to our overall operations. We believe that all required capital to maintain such increases will continue to be provided by operations and our current financing arrangements.

Many of the raw materials that we use in the manufacturing process are petroleum or chemical based and commodity chemicals that are subject to fluctuating prices. The nature of our business does not enable us to pass through the price increases to our national retailers and distributors, as promptly as we experience increases in raw material costs. This may, at times, adversely affect our margins.

At March 31, 2013 and through the date of this report, 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.

We believe that funds provided through operations and our existing sources of financing will be sufficient to satisfy our cash requirements over at least the next twelve months.

Item Quantitative and Qualitative Disclosures about Market Risk

3.

Not applicable

Item Controls and Procedures

4.

Evaluation of Disclosure Controls and Procedures:

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") at the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act are (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding the disclosure.

Change in Internal Controls over Financial Reporting:

No change in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. – Risk Factors

In addition to the information set forth in this report, you should carefully consider the factors discussed in Part I -Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect the Company's business, financial condition or future results.

Item 6. – Exhibits

Exhibit No. Description

| | |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act. * |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act. * |
| 32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350. * |
| 32.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350. * |
| 101 | The following materials from Ocean Bio-Chem, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and (v) Notes to Condensed Consolidated Financial Statements. . |

* Filed herewith.

SIGNATURES

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

OCEAN BIO-CHEM, INC.

Dated: May 15, 2013

/s/ Peter G. Dornau
Peter G. Dornau
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Dated: May 15, 2013

/s/ Jeffrey S. Barocas
Jeffrey S. Barocas
Vice President and
Chief Financial Officer
(Principal Financial and Accounting
Officer)