

OCEAN BIO CHEM INC
Form 10-Q
August 15, 2011

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 ending June 30, 2011

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 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

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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

At August 15, 2011, 7,997,613 shares of the registrant's Common Stock were outstanding.

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES

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PART 1-FINANCIAL INFORMATION

Item 1.-Financial Statements

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

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash	\$ 538,597	\$ 615,044
Trade accounts receivable net of allowance for doubtful accounts of approximately \$85,600 and \$63,600 at June 30, 2011 and December 31, 2010, respectively	3,509,620	2,266,695
Receivables due from affiliated companies	125,425	-
Inventories, net	9,184,234	7,725,580
Prepaid expenses and other current assets	430,198	289,930
Deferred tax asset	165,577	127,676
Total Current Assets	13,953,651	11,024,925
Property, plant and equipment, net	5,298,080	5,421,787
Other Assets:		
Trademarks, trade names and patents, net	896,366	947,814
Due from affiliated companies, net	-	212,736
Other assets	57,541	75,036
Total Other Assets	953,907	1,235,586
Total Assets	\$ 20,205,638	\$ 17,682,298
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable – trade	\$ 1,054,549	\$ 1,417,959
Revolving line of credit	2,600,000	-
Notes payable related party	-	471,950
Current portion of long term debt	230,151	490,127
Income taxes payable	-	539,628
Accrued expenses payable	1,178,189	993,010
Total Current Liabilities	5,062,889	3,912,674
Deferred tax liability	261,046	81,030
Long term debt, less current portion	2,268,279	2,507,985
Total Liabilities	7,592,214	6,501,689
Commitments and contingencies		
Shareholders' Equity:	83,491	82,051

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Common stock - \$.01 par value, 10,000,000 shares authorized; 8,349,116 and 8,205,116 shares issued at June 30, 2011 and December 31, 2010, respectively		
Additional paid in capital	8,075,219	7,689,183
Less cost of common stock in treasury, 351,503 shares at June 30, 2011 and December 31, 2010, respectively	(288,013)	(288,013)
Foreign currency translation adjustment	(267,968)	(271,939)
Retained earnings	4,703,908	3,666,211
Total Shareholders' Equity of Ocean Bio-Chem, Inc.	12,306,637	10,877,493
Noncontrolling interest	306,787	303,116
Total Shareholders' Equity	12,613,424	11,180,609
Total Liabilities and Shareholders' Equity	\$ 20,205,638	\$ 17,682,298

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Gross sales	\$8,669,305	\$7,692,395	\$15,754,782	\$13,090,811
Less: discounts, returns, and allowances	451,331	338,976	804,301	539,518
Net sales	8,217,974	7,353,419	14,950,481	12,551,293
Cost of goods sold	5,240,420	4,640,107	9,463,886	8,105,416
Gross profit	2,977,554	2,713,312	5,486,595	4,445,877
Operating Expenses:				
Advertising and promotion	656,811	417,645	1,029,779	687,274
Selling and administrative	1,673,694	1,642,143	2,776,614	2,425,382
Total operating expenses	2,330,505	2,059,788	3,806,393	3,112,656
Operating income	647,049	653,524	1,680,202	1,333,221
Other income (expense)				
Interest expense	(47,443)	(40,403)	(73,219)	(67,972)
Other income	1,563	-	25,511	22,317
Income before income taxes	601,169	613,121	1,632,494	1,287,566
Provision for income taxes	224,352	294,700	627,968	574,700
Net income	376,817	318,421	1,004,526	712,866
Loss attributable to noncontrolling interests	12,579	53,589	33,171	53,589
Net income attributable to Ocean-Bio Chem, Inc.	\$389,396	\$372,010	\$1,037,697	\$766,455
Income per common share – basic	\$0.05	\$0.05	\$0.13	\$0.10
Income per common share – diluted	\$0.05	\$0.04	\$0.12	\$0.09
Weighted average shares - basic	7,897,985	7,746,886	7,875,923	7,724,722
Weighted average shares - diluted	8,418,591	8,615,326	8,315,186	8,362,719

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)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
Net Income	\$376,817	\$318,421	\$1,004,526	\$712,866
Foreign currency translation adjustment	518	32,557	3,971	6,868
Comprehensive income	377,335	350,978	1,008,497	719,734
Comprehensive loss attributable to noncontrolling interests	12,579	53,589	33,171	53,589
Comprehensive income attributable to Ocean-Bio Chem, Inc.	\$389,914	\$404,567	\$1,041,668	\$773,323

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)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income attributable to Ocean Bio-Chem, Inc.	\$ 1,037,697	\$ 766,455
Adjustment to reconcile net income to net cash (used in) provided by operations:		
Loss attributable to noncontrolling interest	(33,171)	(53,589)
Depreciation and amortization	418,708	333,289
Stock based compensation	365,598	337,386
Other operating non cash items	51,586	87,904
Changes in assets and liabilities:		
Accounts receivable	(1,264,996)	(159,942)
Amounts due from affiliates	87,311	(98,584)
Inventory	(1,470,636)	(1,186,777)
Other assets	17,495	63,298
Deferred taxes	142,115	-
Prepaid expenses	(140,268)	209,024
Accounts payable and other accrued liabilities	(717,859)	(135,604)
Net cash (used in) provided by operating activities	(1,506,420)	162,860
Cash flows from investing activities:		
Purchases of property, plant and equipment	(243,553)	(322,747)
Trademarks, trade names and patents, net	-	(177,036)
Contributions from (to) joint venture	36,842	(103,627)
Net cash used in investing activities	(206,711)	(603,410)
Cash flows from financing activities:		
Borrowings under revolving line of credit, net	2,600,000	750,000
Payments on related party notes	(471,950)	-
Payments on long-term debt	(499,682)	(240,049)
Proceeds from exercise of stock options	6,300	7,085
Net cash provided by financing activities	1,634,668	517,036
Effect of exchange rates on cash	2,016	(560)
Net (decrease) increase in cash	(76,447)	75,926
Cash at beginning of period	615,044	494,973
Cash at end of period	\$ 538,597	\$ 570,899
Supplemental disclosure of cash transactions:		
Cash paid for interest during period	\$ 81,421	\$ 44,022
Cash paid for income taxes during period	\$ 1,204,000	\$ 450,000
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.

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, all of which are wholly-owned, and OdorStar Technology LLC (“OdorStar”), a joint venture in which the Company has a controlling interest. All significant inter-company 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” includes 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 and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

For further information, please refer to the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

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.

Revenue recognition

Revenue from product sales is recognized when persuasive evidence of a contract exists, the sales price is fixed and determinable, the title of goods passes to the customer, and collectability of the related receivable is probable. Reported net sales are net of customer prompt pay discounts, contractual allowances, authorized customer returns, consumer rebates and other sales incentives.

Advertising and Promotion Expense

Advertising and promotion expense consists of advertising costs and catalog costs. Advertising costs are expensed in the period in which the advertising occurs and were approximately \$657,000 and \$418,000 for the three months ended June 30, 2011 and 2010, respectively and approximately \$1,030,000 and \$687,000 for the six months ended June 30, 2011 and 2010, respectively. The Company capitalizes the direct cost of producing its catalogs. Capitalized catalog costs are amortized, once a catalog is distributed, over the expected net sales period, which is generally from one to 12

months. At June 30, 2011 and December 31, 2010, the Company did not have any significant cost of advertising materials on hand.

Stock based compensation

The Company records stock-based compensation in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) Topic 718, “Accounting for Stock Compensation,” which establishes accounting standards for transactions in which an entity exchanges its equity instruments for goods or services. Under FASB ASC Topic 718, the Company recognizes an expense for the fair value of its outstanding stock options and grants as they vest, whether held by employees or others.

Noncontrolling interest

Noncontrolling interest represents the portion of OdorStar equity that the Company does not own. Profits and losses in OdorStar are allocated equally between the Company and its joint venture partner, and contributions to OdorStar are made equally by the Company and its joint venture partner. Because the Company manages OdorStar, it has a controlling interest in OdorStar, and the Company consolidates OdorStar in its financial statements. The Company accounts for and reports its noncontrolling interest in accordance with the provisions of the FASB ASC 810.

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 July 6, 2011, the Company and its subsidiary Kinpak, Inc. (“Kinpak”) entered into a Credit Agreement (the “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, and under the Equipment Finance Addendum, REFCO provided to the Company a new fixed term loan in the amount of \$2,430,000, the proceeds of which were used to repay the Company’s remaining obligations in connection with the 2002 Series of Industrial Development Revenue Bonds (Kinpak, Inc. Project) issued by the City of Montgomery, Alabama (the “Series 2002 Bonds”).

2. RECENT ACCOUNTING PRONOUNCEMENTS

There have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2011 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 six months ended June 30, 2011 had no material impact on disclosures or on the Company’s financial position, results of operations or cash flows.

3. INVENTORIES

The composition of inventories at June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
Raw materials	\$ 3,969,012	\$ 4,116,577
Finished goods	5,556,830	3,938,629
Inventories, gross	9,525,842	8,055,206
Inventory reserves	(341,608)	(329,626)
Inventories, net	\$ 9,184,234	\$ 7,725,580

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 \$398,000 and \$352,000 at June 30, 2011 and December 31, 2010, respectively.

4. PROPERTY, PLANT, & EQUIPMENT

The Company's property, plant and equipment consisted of the following at June 30, 2011 and December 31, 2010:

	Estimate Useful Life	June 30, 2011	December 31, 2010
Land		\$ 278,325	\$ 278,325
Building	30 years	4,402,275	4,402,275