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OCEAN BIO CHEM INC  
Form 10-K/A  
August 31, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A

(Mark one)

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

For the fiscal year ended December 31, 2005

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  
(IRS Employer  
Identification No.)

4041 SW 47 Avenue  
Fort Lauderdale, FL 33314-4023  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:  
Common stock, \$0.01 par value

Indicate by check mark whether the Registrant is a well seasoned issuer, as  
defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports  
pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the 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 if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained to the  
best of Registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K.

Yes  No

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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                      Accelerated filer                      Non-accelerated filer

Indicated by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes    No

Aggregate market value of Registrant's common stock held by non-affiliates of the Registrant, based upon the closing price of a share of the Registrant's common stock on March 2, 2006 as reported by the NASDAQ Capital Market on that date: \$2,353,657 For purposes of this disclosure, the Registrant has assumed that all directors, officers, and beneficial owners of 5% or more of the Registrant's common stock are affiliates of the Registrant.

Number of shares of the Registrant's common stock outstanding as of March 2, 2006:

5,849,316 shares common stock, \$0.01 par value.

### DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information from portions of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders which was held on June 15, 2006, and was filed within 120 days of December 31, 2005

### Forward-looking Statements:

Certain statements contained in this Annual Report on Form 10-K/A, 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 Litigation 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 "believe", "may", "will", "expect", "anticipate", "intend", "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 our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors, which may affect these results include, but are not limited to, the highly competitive nature of our industry; reliance on certain key customers; consumer demand for marine recreational vehicle and automotive products; advertising and promotional efforts; and other factors.

### Explanatory note - Restatements/Amendment:

As disclosed in our Form 8-K filed with the United States Securities and Exchange Commission on August 14, 2006, in this Form 10-K/A we are restating our financial statements as of December 31, 2005 and 2004 and the years then ended. The substantive changes to be reflected in this amendment are (a) the recognition of the compensation cost associated with stock options of which certain terms were modified during the year ended December 31, 2004 and (b) the reclassification between debt and additional paid-in capital of certain of the proceeds from the Revolving Subordinated Obligation to our President and CEO,

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Peter G. Dornau received during the year ended December 31, 2005. Neither of these items have an impact on our previously reported cash flows. These matters are more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements.

We have also included restated amounts in Item 6 - "Selected Financial Data" and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations". Along with the foregoing, we have updated our Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 presented as Exhibits 31.1 and 31.2 to conform with the current language requirements.

### Part I

#### Item 1. Business

General: We were organized on November 13, 1973 under the laws of the state of Florida. We are principally engaged in the manufacturing, marketing and distribution of a broad line of appearance and maintenance products for boats, recreational vehicles, automobile and aircraft under the Star brite(R) 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 as well as provide custom blending and packaging services of these and other products.

#### Products:

Set forth below is a general description of the products that we manufacture and market:

Marine: Our Marine line consists of polishes, cleaners, protectants and waxes of various formulations under the Star brite(R) brand name as well as private label formulations of these and other products. The motor oils line also includes various vinyl protectants, cleaners, teak cleaners, teak oils, bilge cleaners, hull cleaners, silicone sealants, polyurethane sealants, polysulfide sealants, gasket materials, lubricants, antifouling additives and anti-freeze coolants. In addition, we manufacture a line of brushes, poles and tie-downs and other related marine accessories.

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Automotive: We manufacture a line of automotive products under the Star brite(R) brand name including brake and transmission fluids, hydraulic, gear and motor oils, and related items. In addition, anti-freeze and windshield washes are produced in varying formulations both under the Star brite(R) brand as well as under private labels for customers. We also produce a line of automotive polishes, cleaners and associated appearance items.

Recreational vehicle: Our recreational vehicle products are made up of cleaners, polishes, detergents, fabric cleaners and protectors, silicone sealants, waterproofers, gasket materials, degreasers, vinyl cleaners, protectors, toilet treatment fluids and anti-freeze coolants.

Aircraft: Our Aircraft product line consists primarily of polishes and cleaners. Although the above products are utilized for different types of vehicles, boats, aircrafts and household purposes, it is management's view that they all constitute one industry segment.

Manufacturing: We manufacture the majority of our products at our manufacturing facility in Montgomery, Alabama. In addition, we contract with various unrelated companies located in the northeastern and mid-western areas of the country to package other products, which are manufactured to our

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specifications, using our provided formulas. Each third party packager enters into a confidentiality agreement with us.

We purchase raw materials from a wide variety of suppliers, none of which is significant to our operations and all raw materials used in manufacturing are readily available. We design our own packaging and supply our outside manufacturers with the appropriate design and packaging. We believe that our internal manufacturing capacity and our arrangements with our current outside manufacturers are adequate for our present needs.

In the event that these arrangements are discontinued with any manufacturer, we believe that substitute facilities can be found without substantial adverse effect on our manufacturing and distribution.

Our in-house manufacturing is primarily performed by our wholly owned subsidiary, Kinpak Inc, an Alabama corporation ("Kinpak"). On February 27, 1996, we acquired certain assets of Kinpak, Inc., and assumed two (2) leases of land and facilities leased by Kinpak from the Industrial Development Board of the City of Montgomery, Alabama and the Alabama State Docks Department. On December 20, 1996, we entered a new agreement with the Industrial Development Board of the City of Montgomery, Alabama to issue Industrial Development Bonds in the amount of \$4,990,000 to repay certain financial costs and to expand the capacity of the Alabama facility. The underlying premises, at that time, consisted of a manufacturing and distribution facility containing approximately 110,000 square feet located on approximately 20 acres of real property and a docking facility located on the Alabama River. In addition, we purchased the machinery, equipment and inventory located on the leased premises. Subsequent to the acquisition, we changed the name of our subsidiary to Kinpak Inc.

During July 2002, we completed an additional \$3.5 million Industrial Development Bond financing through the City of Montgomery, Alabama. Such transaction funded an approximate 70,000 square foot addition to the manufacturing facility as well as the requisite machinery and equipment additions required therein. Such project was substantially completed during the year ended December 31, 2003.

**Marketing:** Our marine and recreational vehicle products are sold through national mass merchandisers such as Wal-mart and Home Depot and through specialized marine retailers such as West Marine and Boater's World. We also sell to national and regional distributors who in turn sell our products to specialized retail outlets for that specific market. Currently we have one customer (West Marine, Inc., which is an unrelated entity) to whom sales exceeded 10% of consolidated revenues for the year ended December 31, 2005. Sales to our five largest customers for the year ended December 31, 2005 amounted to approximately 43% of consolidated gross revenues and outstanding balances due us at year-end from our five largest customers aggregated approximately 26% of consolidated trade receivables. We market our products through internal salesmen and approximately 250 sales representatives who work on an independent contractor-commission basis. Our officers also participate in sales presentations and trade shows. In addition, we aid marketing through advertising campaigns in national magazines related to specific marketplaces. Our products are distributed primarily from our manufacturing and distribution facility in Alabama.

**Backlog, seasonality, and selling terms:** We had no significant backlog of orders as of December 31, 2005. We do not give customers the absolute right to return product. The majority of our products are non-seasonal and are sold throughout the year. Normal trade terms offered to credit customers range from 30 to 60 days. However, at times special dating and/or discount arrangements are offered as purchasing incentives to customers. Such programs do not materially distort normal margins.

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Competition:

Marine: We have several national and regional competitors in the marine marketplace. The principal elements of competition are brand recognition, price, service and the ability to deliver products on a timely basis. In the opinion of management no one or few competitors holds a dominant market share. We believe that we can increase or maintain our market share through our present methods of advertising and distribution.

Automotive: The automotive marketplace into which the Company began selling various products over the past five years is the largest in which we operate. There are many entities, both national and regional, which represent competition to us. Many are more established and have greater financial resources than we do. However, the market is so large that even a minimal market share could be significant to us. The principal elements of competition are brand recognition, price, service and the ability to deliver products on a timely basis. We believe that we can establish a reasonable market share through our present methods of advertising and distribution.

Recreational Vehicle: Our recreational vehicle appearance and maintenance market is parallel to that of the marine marketplace. In this market we compete with national and regional competitors, none of which singly or as a few have a dominant market share. The principal elements of competition are brand recognition, price, service and the ability to deliver products on a timely basis. Management is of the opinion that it can increase or maintain our market share by utilizing similar methods as those employed in the marine market.

Trademarks: We have obtained registered trademarks for Star brite(R) and other trade names used on our products. We view our trademarks as significant assets because they provide product recognition. We believe that our intellectual property is significantly protected, but there are no assurances that these rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged.

Patents: We hold two patents which we believe are valuable in limited product lines, but not material to our success or competitiveness in general.

New Product Development: We continue to develop specialized products for the marine, automotive, and recreational vehicle marketplace. We believe that our current operations and working capital financing arrangement are sufficient to meet development expenditures without securing external funding. The amounts expended toward this effort in any fiscal period have not been significant and are charged to operations in the year incurred.

Environmental Costs: We adhere to a policy of compliance with applicable regulatory mandates on environmental issues. Amounts expended in this regard have not been significant and management is not aware of any instances of material non-compliance.

Financial Information Relating to Approximate Domestic and Canadian Gross Sales:

|                | Year ended December 31, |              |              |
|----------------|-------------------------|--------------|--------------|
|                | 2005                    | 2004         | 2003         |
|                | ----                    | ----         | ----         |
| United States: |                         |              |              |
| Northeast      | \$ 3,585,000            | \$ 4,455,000 | \$ 4,054,000 |
| Southeast      | 5,468,000               | 6,832,000    | 6,218,000    |
| Central        | 5,655,000               | 7,015,000    | 6,384,000    |
| West Coast     | 4,148,000               | 5,197,000    | 4,730,000    |
|                | -----                   | -----        | -----        |

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|                     |              |              |              |
|---------------------|--------------|--------------|--------------|
|                     | 15,856,000   | 23,499,000   | 21,386,000   |
| Canada (US Dollars) | 850,000      | 862,000      | 792,000      |
|                     | -----        | -----        | -----        |
|                     | \$19,706,000 | \$24,361,000 | \$22,178,000 |
|                     | =====        | =====        | =====        |

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Personnel: We employ approximately 21 full time employees at our corporate office in Fort Lauderdale, Florida. These employees are engaged in administration, clerical and accounting functions. In addition, we employ manufacturing and fabrication personnel in both Florida and Alabama.

The following is a tabulation of the total number of personnel working for the Company and/or its subsidiaries as of December 31, 2005:

| Location                 | Description                    | Full-time Employees |
|--------------------------|--------------------------------|---------------------|
| Fort Lauderdale, Florida | Administrative                 | 21                  |
| Fort Lauderdale, Florida | Manufacturing and distribution | 7                   |
| Montgomery, Alabama      | Manufacturing and distribution | 80                  |
|                          |                                | ---                 |
|                          |                                | 108                 |
|                          |                                | ===                 |

Item 1A. Risk factors

Concentration of credit risk - Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. Our five largest customers represented approximately 43%, 55% and 55% of consolidated gross revenues for the years ended December 31, 2005, 2004 and 2003; and 26% and 77% of consolidated accounts receivable at December 31, 2005 and 2004, respectively. We have had a longstanding relationship with each of these entities and have always collected open receivable balances. However, the loss of any of these customers could have an adverse impact on our operations.

As disclosed in our Form 10-Q for the quarter ended March 31, 2005, our largest customer, West Marine, publicly announced their adoption of a policy to reduce their overall inventory levels. This has resulted in an approximate \$4,294,000 decrease in sales to them for the year ended December 31, 2005 compared to 2004.

Concentration of cash - At various times of the year and at December 31, 2005, we had a concentration of cash in one bank in excess of prevailing insurance offered through the Federal Deposit Insurance Corporation at such institution. Management does not consider the excess deposits to be a significant risk.

Operating losses at Alabama subsidiary - A major component of the losses sustained during the year ended December 31, 2005 is the operations at our manufacturing subsidiary, Kinpak Inc. Corporate management has enhanced its analysis, supervision and overall involvement with our manufacturing facility. We have identified several areas that require improvement and through increased on-site management presence, major personnel changes, adoption of certain strategic enhancements to our manufacturing process, and a renewed commitment from personnel in Alabama to strive for improved efficiency and cost savings, we

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believe that we will achieve a material reduction in manufacturing cost thereby improving product margins and operating profits (losses) during 2006.

### Item 2. Properties

Our executive offices and warehouse located in Fort Lauderdale, Florida are held under a lease with an entity fifty percent each owned by Messrs. Peter G. Dornau and Jeffrey J. Tieger, our President and Vice President-Advertising, respectively. The lease covers approximately 12,700 square feet of office and warehouse space. On May 1, 1998, we renewed our lease agreement for a term of ten years. The lease required an initial annual rental of \$94,800 and provides for a maximum increase of 2% per annum on the annual anniversary of the lease for the term thereof. Additionally, the landlord is entitled to collect from us its pro-rata share of all taxes, assessments, insurance premiums, operating charges, maintenance charges and any other expenses which normally arise from ownership. Rent charged to operations during the years ended December 31, 2005, 2004 and 2003 amounted to approximately \$100,500 each year.

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Our Alabama facility currently contains approximately 180,000 square feet of office, plant and warehouse space located on 20 acres of land (the "Plant") and also includes a leased 1.5 acre docking facility on the Alabama River located approximately eleven miles from the Plant. This facility has undergone two separate expansions of 60,000 and 70,000 square feet in 1998 and 2002, respectively. We financed the facility's enhancements and related equipment needs with Industrial Development Bonds issued through the city of Montgomery, AL. Our manufacturing facility is subject to a priority first mortgage; and our manufacturing equipment serves as collateral to a financial institution, which issued letters of credit to secure the bonds. .

### Item 3. Legal Proceedings

We were not involved in any significant litigation at December 31, 2005.

### Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted for a vote of shareholders during the fourth quarter of 2005. Shareholders voted at the Annual Meeting held during June, 2006 to elect members of the Board of Directors, ratify the engagement of the Company's Independent Certified Public Accountants, and other matter presented at such meeting. The results of such voting was disclosed in our Form 10-Q for the quarter ended June 30, 2006.

## Part II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

A. Our common stock was sold to the public initially on March 26, 1981. The common stock of the Company is traded on the NASDAQ Capital Market System under the symbol OBCI. A summary of the trading ranges during each quarter of 2005 and 2004 is presented below.

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| Market Range of<br>Common Stock Bid: |      | 1st Qtr. | 2nd Qtr. | 3rd Qtr. |
|--------------------------------------|------|----------|----------|----------|
| 2005                                 | High | \$3.11   | \$2.04   | \$1.63   |
|                                      | Low  | \$1.07   | \$1.45   | \$1.14   |
| 2004                                 | High | \$1.89   | \$1.85   | \$1.49   |
|                                      | Low  | \$1.53   | \$1.31   | \$1.13   |

A. The quotations reflect inter-dealer prices without retail mark-up, markdown or commission and may not represent actual transactions.

B. The number of record holders of our Common Stock owners was approximately 200 at December 31, 2005. In addition, we believe that there are approximately 600 beneficial holders based on information obtained from our Transfer Agent and Registrar and indications from broker dealers of shares held by them as nominee for actual shareholders.

C. We have not paid any cash dividends since it has been organized. However, during the years ended December 31, 2002 and 2000, the Company declared and distributed a 10% and a 5% stock dividend, respectively. The Company has no other dividend policy except as stated herein.

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D. Securities authorized for issuance at December 31, 2005 under equity compensation plans:

|   | Number of securities<br>to be issued upon<br>exercise of outstanding<br>options, warrants & rights | Weighted average<br>exercise price of<br>outstanding options,<br>warrants & rights |
|---|--|--|
| Equity compensation plans<br>approved by security holders:                          |  |  |
| Plan stock options granted (1)  | 733,500  | \$1.23   |
| Non plan stock options granted (2)  | 231,000  | .76  |
| Equity compensation plans<br>not approved by security holders:                      |  |  |
| Stock options and restricted<br>stock awards  | -  | -  |
| Total equity compensation plans<br>approved and not approved by<br>security holders | -----<br>964,500<br>=====  | -----<br>\$1.12<br>=====   |

(1) Includes 290,000 options granted under the 2002 Qualified Incentive Stock Option Plan, 115,000 options under the 2002 Non-Qualified Stock Option Plan, 174,500 options under the 1994 Non-Qualified Stock Option Plan and 154,000



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options under the 1992 Qualified Incentive Stock Option Plan.

(2) Includes 231,000 options granted to Messrs. Peter G. Dornau and Jeffrey J. Tieger in conjunction with a loan made to the Company by an entity 50% owned by each of them.

(3) During the quarter ended December 31, 2005, we finalized a revolving credit facility with our president and CEO, Peter G. Dornau. In connection with his offering to loan a maximum of \$1.5 million to the Company in order to bolster working capital, we issued warrants to Mr. Dornau to purchase a maximum of 1 million shares of our common stock. Such warrants are exercisable 500,000 shares at \$1.13 and 500,000 shares at \$.863. The exercise prices were determined by the closing bid of our stock plus ten (10) percent on each date of grant. In addition, he has the right, at his sole discretion, to convert such debt into a maximum of 1.5 million shares of our common stock at the rate of \$1.00 per share. Potential shares to be issued pursuant to this arrangement are not reflected in the foregoing tabulation.

(4) During April 2005 we issued 122,000 shares of our common stock bearing a restricted legend to certain officers and other key employees as a component of their compensation. At the date of grant the shares had a market value of \$1.53 each. Shares were awarded as follows:

|   |                |
|---|----------------|
| Officers:                                       |                |
| Peter G. Dornau, President and CEO              | 30,000 shares  |
| Edward Anchel, Vice President and CFO           | 30,000 shares  |
| Jeffrey J. Tieger, Vice President and Secretary | 15,000 shares  |
| William Dudman, Vice President                  | 15,000 shares  |
| Gregor M. Dornau, Vice President                | 15,000 shares  |
|   | -----          |
|   | 105,000 shares |
| Other employees, as a group (7 individuals)     | 17,000 shares  |
|   | -----          |
| Total restricted shares awarded                 | 122,000 shares |
|   | =====          |

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### Item 6. Selected Financial Data

As more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements, we are filing this amended Form 10-K/A including these substantive changes: (a) the recognition of the compensation cost associated with stock options of which certain terms were modified during the year ended December 31, 2004 and (b) the reclassification between debt and additional paid-in capital of certain of the proceeds from the Revolving Subordinated Obligation to our President and CEO, Peter G. Dornau received during the year ended December 31, 2005. Neither of these items have an impact on our previously reported cash flows.

The following tables set forth selected financial data as of, and for the years ended December 31,

|      |                    |                    |
|------|--------------------|--------------------|
| 2005 | 2004<br>(Restated) | 2003<br>(Restated) |
|------|--------------------|--------------------|

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|  |               |              |              |       |
|--|---------------|--------------|--------------|-------|
| Operations   |               |              |              |       |
| Gross sales  | \$19,706,469  | \$24,361,056 | \$22,178,352 | \$22, |
| Net sales  | \$17,651,905  | \$21,657,083 | \$19,997,702 | \$20, |
| Net income (loss)                                    | (\$1,813,193) | \$ 17,222    | \$ 345,071   | \$    |
| Earnings (loss) per<br>common share                  | (\$ .32)      | \$ -         | \$ .07       | \$    |
| Balance Sheet  |               |              |              |       |
| Working capital                                      | \$ 2,713,123  | \$ 3,464,574 | \$ 2,869,172 | \$ 2, |
| Total assets   | \$16,903,022  | \$19,398,344 | \$18,303,184 | \$18, |
| Long-term<br>obligations                             | \$ 5,950,958  | \$ 5,840,250 | \$ 5,883,302 | \$ 6, |
| Total liabilities                                    | \$12,240,427  | \$13,448,849 | \$12,899,189 | \$13, |
| Shareholders'<br>equity                              | \$ 4,662,595  | \$ 5,949,495 | \$ 5,403,995 | \$ 4, |
| Cash dividends declared<br>per share of common stock | \$ -          | \$ -         | \$ -         | \$    |

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements contained herein as Item 15.

As more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements, we are filing this amended Form 10-K/A including these substantive changes: (a) the recognition of the compensation cost associated with stock options of which certain terms were modified during the year ended December 31, 2004 and (b) the reclassification between debt and additional paid-in capital of certain of the proceeds from the Revolving Subordinated Obligation to our President and CEO, Peter G. Dornau received during the year ended December 31, 2005. Neither of these items have an impact on our previously reported cash flows.

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#### 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.

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Critical accounting policies and estimates:

Principles of consolidation - Our consolidated financial statements include the accounts of the parent company and its wholly owned subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation.

Revenue recognition - Revenue from product sales is recognized when persuasive evidence of an arrangement exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectibility of the related receivable is probable.

Inventories - Inventories are primarily composed of raw materials and finished goods and are stated at the lower of cost, using the first-in, first-out method, or market.

Prepaid advertising and promotion - In any given year we introduce certain new products to our customers. In connection therewith, we produce new promotional items to be distributed over a period of time. We follow the policy of amortizing these costs over a one-year basis.

Property, plant and equipment - Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method.

Stock based compensation - We follow the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, to record compensation costs. Opinion No. 25 requires that compensation cost be based on the difference, if any, between the quoted market price of the stock and the price the employee must pay to acquire the stock depending on the terms of the award. For the years ended December 31, 2005, 2004 and 2003, we have not adopted Statement of Financial Accounting Standards No. 123 to record such compensation costs.

Concentration of credit risk - Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. Our five largest customers represented approximately 43%, 55% and 55% of consolidated gross revenues for the years ended December 31, 2005, 2004 and 2003; and 26% and 77% of consolidated accounts receivable at December 31, 2005 and 2004, respectively. We have had a longstanding relationship with each of these entities and have always collected open receivable balances. However, the loss of any of these customers could have an adverse impact on our operations.

Concentration of cash - At various times of the year and at December 31, 2005, we had a concentration of cash in one bank in excess of prevailing insurance offered through the Federal Deposit Insurance Corporation at such institution. Management does not consider the excess deposits to be a significant risk.

Fair value of financial instruments - The carrying amount of cash approximates its fair value. The fair value of long-term debt is based on current rates at which we could borrow funds with similar remaining maturities, and the carrying amount approximates fair value.

Income taxes - We file consolidated federal and state income tax returns. We have adopted Statement of Financial Accounting Standards No. 109 in the accompanying consolidated financial statements. The only temporary differences included therein are attributable to differing methods of reflecting depreciation for financial statement and income tax purposes.

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Trademarks, trade names and patents - The Star brite trade name and trademark were purchased in 1980 for \$880,000. The cost of such intangible assets was amortized on a straight-line basis over an estimated useful life of 40 years through December 31, 2001. Effective January 1, 2002 and pursuant to Statement of Financial Accounting Standards No. 142, we have determined that the carrying value of such intangible assets relating to its Star brite brand does not require further amortization. In addition, we own two patents that we believe are valuable in limited product lines, but not material to our success or competitiveness in general. There are no capitalized costs of these two patents.

Translation of Canadian currency - The accounts of our Canadian subsidiary are translated in accordance with Statement of Financial Accounting Standards No. 52, which requires that foreign currency assets and liabilities be translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as the translation adjustment in shareholders' equity. Realized gains and losses from foreign currency transactions, if any, are included in net earnings of the period.

### Liquidity and Capital Resources:

The primary sources of our liquidity are our operations and short-term borrowings from Regions Bank pursuant to a revolving line of credit aggregating \$6 million. Such line matures May 31, 2006, bears interest at the 30 Day LIBOR plus 275 basis points (approximately 7.14% at December 31, 2005) 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. As of December 31, 2005, we were obligated under this arrangement in the amount of \$4,000,000.

In connection with the purchase and expansion of the Alabama facility, we closed on 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 second Industrial Development Bond financing aggregating \$3.5 million through the City of Montgomery, Alabama. Such transaction funded an approximate 70,000 square foot addition to the manufacturing facility as well as the remaining machinery and equipment additions required therein. This project was substantially completed during 2003.

In order to market the Industrial Development Bonds at favorable rates, we obtained a substitute irrevocable letter of credit for the 1997 issue and a new irrevocable letter of credit for the 2002 issue. Under such letters of credit agreements maturing on July 31, 2006, we are required to maintain a stipulated level of working capital, a designated maximum debt to tangible ratio, and a required debt service coverage ratio. Such letters of credit are secured by a first priority mortgage on the underlying Alabama facility and equipment.

The bonds are marketed weekly at the prevailing rates for such tax-exempt instruments. During the year ended December 31, 2005 such bonds carried interest ranging between 1.8% and 3.3% annually. Interest and principal are payable quarterly. We believe current operations are sufficient to meet these obligations.

On April 12, 2005 we entered into a financing obligation with Regions Bank whereby they advanced us \$500,000 to finance equipment acquisitions at our Kinpak facility. Such obligation is due in monthly installments of principal aggregating approximately \$8,300 plus interest at prevailing rates (the outstanding balance and interest rate on this obligation at December 31, 2005

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were approximately \$ 433,300 and prime plus 2.5% per annum, respectively) through maturity on April 15, 2010.

During the quarter ended December 31, 2005, we finalized a revolving credit facility with our president and CEO, Peter G. Dornau. In connection with his offering to loan a maximum of \$1.5 million to the Company in order to bolster working capital, we issued warrants to Mr. Dornau to purchase a maximum of 1 million shares of our common stock. Such warrants are exercisable 500,000 shares at \$1.13 and 500,000 shares at \$.863. The exercise prices were determined by the

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closing bid of our stock plus ten (10) percent on each date of grant. In addition, he has the right, at his sole discretion, to convert such debt into a maximum of 1.5 million shares of our common stock at the rate of \$1.00 per share. At December 31, 2005, \$1,150,000 was outstanding pursuant to this obligation which is due in October 2010 along with accrued interest at the rate of prime plus 2%. Such obligation is subordinate to all borrowings from Regions Bank.

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 commodities that are subject to fluctuating prices. We react to long-term increases by passing along all or a portion of such increases to our customers.

As of December 31, 2005 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. Our operations during the year ended December 31, 2005 have been adversely impacted by four significant challenges; an increasingly unstable commodity market causing increased cost for petroleum related products, the announcement by our largest customer that they have adopted a policy of reducing their inventory levels, our immediate geographic area sustaining three separate major hurricanes, and a decrease in our manufacturing efficiency resulting in higher product costs. As a result of the foregoing, we have sustained material losses during the year ended December 31, 2005. Management has analyzed the foregoing and has adopted a necessary, but flexible strategy to provide the required working capital to cover these losses, maintain a pricing model that more closely follows the commodity fluctuations that we are exposed to, and address those areas of our operations that can be improved.

As disclosed in our Form 10-Q for the quarter ended March 31, 2005, our largest customer, West Marine, publicly announced their adoption of a policy to reduce their overall inventory levels. This has resulted in an approximate \$4,294,000 decrease in sales to them for the year ended December 31, 2005 compared to 2004. Our products have historically sold well at their retail stores and they have indicated to us that such is the case during 2005. Accordingly, it appears that they are approaching their inventory goals as they

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relate to our products and we expect that our historical recurring sales levels to them will resume during 2006.

Fortunately this season's hurricanes caused only minimal direct damages to our facilities and operations, principally power outages and the related down-time. However, the devastation sustained in the geographic areas that were impacted were significant and contributed to a reduction in sales to our retail and distribution customers both in that region and nationally. In addition, the cost of petroleum related products, major components in many of our products, which were already in an increasing cost spiral, became even more unstable. The practical dynamics of our business do not afford us the same pricing flexibility available to our suppliers, i.e. a major petroleum supplier tells us the new price, however we cannot as immediately pass along the increase to our national retailers and distributors. Aside from our previously reported sales price increase to our customers, we have recently announced another sales price increase which become effective during the fourth quarter of 2005. In addition, we have alerted customers who purchase products, which are heavily dependent on this petroleum related issue, that we will be more responsive to commodity pricing and they must be receptive to short-term price swings or accept our refusal to ship at previously established pricing.

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Corporate management has enhanced its analysis, supervision and overall involvement with our manufacturing facility. We have identified several areas that require improvement and through increased on-site management presence, major personnel changes, adoption of certain strategic enhancements to our manufacturing process, and a renewed commitment from our team in Alabama to strive for improved efficiency and cost savings, we believe that we will achieve a material reduction in manufacturing cost thereby improving product margins and operating profits during 2006.

### Results of Operations:

Years ended December 31, 2005 and 2004:

Sales and earnings varied when comparing the year ended December 31, 2005 to 2004 principally due to the factors enumerated below.

Net sales decreased 18.5% to approximately \$17,652,000 for the year ended December 31, 2005 compared to approximately \$21,657,100 for the year ended December 31, 2004. Management attributes such decrease significantly to our largest customer adopting a policy of reducing their inventory levels, the unusually cold weather earlier in the year in various regions of our country resulting in a delay in the start of the 2005 recreational boating season, and the hurricanes experienced during the third and fourth quarters of this year.

Cost of goods sold increased to 82.9% of net sales for the year ended December 31, 2005 compared to 77.0% of net sales for the year ended December 31, 2004. Such increase is attributed to increasing raw material costs and the impact of spreading fixed overhead items to a reduced level of sales.

Advertising and promotion expenses increased approximately \$167,300 or 17.7% for the 2005 period when compared to comparable expenses in the same time period in the previous year. This resulted primarily from planned increases in media and co-op advertising programs for the current year.

Selling and administrative expenses, as restated, increased by approximately \$168,600 or 5% for the year ended December 31, 2005 compared to the year ended December 31, 2004. Such change was primarily due to increased personnel costs and other normal recurring increases in operating expenses offset by the recognition compensation cost associated with the modification of certain stock options during 2004 with no comparable item in 2005.

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Interest expense for the year ended December 31, 2005 increased approximately \$191,600 when compared to 2004. This resulted from increasing interest rates and higher levels of borrowing under our working capital line of credit and other financing obligations.

Our loss before income taxes was approximately \$2,347,700 for the year ended December 31, 2005 compared to a pre-tax profit, as restated of approximately \$122,000 for the year ended December 31, 2004.

Our estimated benefit from income taxes amounted to approximately \$534,500 for the year ended December 31, 2005, and reflects available tax net loss carry-back provisions based on the operations of the Company as well as the reversal of deferred income tax liabilities attributable to timing differences between our book and income tax methods of accounting that are anticipated to reverse during the available carryover period.

As a result of the foregoing, our net loss amounted to approximately \$1,813,200 for the year ended December 31, 2005 compared to a net income, as restated of approximately \$17,200 for the year ended December 31, 2004.

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Years ended December 31, 2004 and 2003:

Sales and earnings varied when comparing the year ended December 31, 2004 to 2003 principally due to the factors enumerated below.

Gross sales increased 9% to approximately \$24,361,000 for the year ended December 31, 2004 compared to \$22,178,000 for the year ended December 31, 2003. Management attributes this increase in sales to gains made during the third quarter of the current year as well as increased sales promotions and the related increase in revenues during the fourth quarter of 2004.

Cost of goods sold increased to 77% of net sales for the year ended December 31, 2004 compared to 75.7% of net sales in the year ended December 31, 2003. This change resulted from various factors, some of which negatively impacted margins and others, which mitigated these factors. Specifically, petroleum product costs are higher than those experienced in prior years and currently represent a higher portion of our manufacturing expenses. In addition, a price increase was passed along on certain of our products during the first and second quarters of 2004. In addition, margins were favorably impacted by spreading the fixed elements of overhead over an increased revenue base.

Advertising and promotion expenses increased approximately \$201,000 for the 2004 period when compared to expenses in the same time period in the previous year. This increase resulted primarily from increased co-op advertising associated with increased sales to certain customers and the timing of various advertising programs in 2004.

Selling and administrative expenses, as restated, increased by approximately \$277,300 or 8% in the year ended December 31, 2004 compared to the year ended December 31, 2003. Such change was primarily due to increased personnel costs, compensation cost associated with the modification of certain stock options, and other normal recurring increases in operating expenses.

Interest expense for the year ended December 31, 2004 increased approximately \$17,000 when compared to the same twelve-month period of 2003.

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This change was primarily due to the impact of higher interest rates and increased borrowings.

Contractual obligations:

The following table reflects our contractual obligations for the years ended December 31,:

|                            | Total       | 2006      | 2007-09      | ----- |
|----------------------------|-------------|-----------|--------------|-------|
| Long-term debt obligations | \$6,786,448 | \$559,996 | \$ 1,679,992 | \$1,  |
| Capital leases             | 56,264      | 20,856    | 35,408       |       |
| Operating leases           | 319,833     | 104,507   | 215,326      |       |
| Purchase obligations       | -           | -         | -            |       |
| Other                      | -           | -         | -            |       |
|                            | -----       | -----     | -----        | ----- |
| Total                      | \$7,162,545 | \$685,359 | \$ 1,930,726 | \$1,  |

### Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We do not engage in derivative transactions. We become exposed to foreign currency transactions as a result of our operations in Canada and we do not hedge such exposure. Our exposure to market risk for changes in interest rates relates primarily to the interest rate on our bonds. The interest rates on our bonds adjusted weekly and ranged between 1.8% and 3.3% during the year ended December 31, 2005.

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### Item 8. Financial Statements and Supplementary Data

The audited financial statements of the Company required pursuant to this Item 8 are included in this Annual Report on Form 10-K, as a separate section commencing on page F-1 and are incorporated herein by reference.

As more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements, we are filing this amended Form 10-K/A including these substantive changes: (a) the recognition of the compensation cost associated with stock options of which certain terms were modified during the year ended December 31, 2004 and (b) the reclassification between debt and additional paid-in capital of certain of the proceeds from the Revolving Subordinated Obligation to our President and CEO, Peter G. Dornau received during the year ended December 31, 2005. Neither of these items have an impact on our previously reported cash flows.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. 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



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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 December 31, 2005, 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 Controls. Since the evaluation date by the Company's management of its internal controls over financial reporting, there have not been any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Limitations on the Effectiveness of Controls. The Company's management, including the CEO and CFO, does not expect that our disclosure or internal controls will prevent all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Despite these limitations, the Company's CEO and CFO have concluded that our disclosure controls and procedures (1) are designed to provide reasonable assurance of achieving their objectives and (2) do provide reasonable assurance of achieving their objectives.

### Part III

#### Item 10. Executive Officers and Directors of the Registrant

The following tables set forth the name and ages of our elected directors and officers, as of December 31, 2005.

All directors will serve until the next annual meeting of directors or until their successors are duly elected and qualified. Each officer serves at the discretion of the board of directors.

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There are no arrangements or understandings between any of the officers or directors of our Company and the Company or any other persons pursuant to which any officer or director was or is to be selected as a director or officer.

| NAME              | OFFICE   | AGE |
|-------------------|--|-----|
| Peter G. Dornau   | President, Chief Executive Officer, and Director since 1973                        | 66  |
| Edward Anchel     | Vice President-Finance, Chief Financial Officer since 1999 and Director since 1998 | 59  |
| Jeffrey J. Tieger | Vice President-Advertising and Marketing, Secretary and Director since 1977        | 62  |
| William W. Dudman | Vice President-Operations since 2004   | 41  |

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|                  |                                  |    |
|------------------|----------------------------------|----|
| Gregor M. Dornau | Vice President--Sales since 2005 | 37 |
| James M. Kolisch | Director since 1998              | 54 |
| Laz L. Schneider | Director since 1998              | 66 |
| John B. Turner   | Director since 2000              | 58 |
| Sonia B. Beard   | Director since 2002              | 35 |

Peter G. Dornau is our co-founder and has served as our President, CEO and Chairman of Board of Directors since 1973.

Edward Anchel joined our company as Vice President-Finance and Chief Financial Officer in March 1999. For the five years immediately preceding his employment, he was an officer of a privately owned manufacturing company and in private practice as a Certified Public Accountant. He was initially elected to serve as an outside Director of the Company in May 1998.

Jeffrey J. Tieger joined our company in June 1977 as our Vice President-Advertising and has served in that position through the present date.

William W. Dudman joined our company in February 2004 as our Vice President-Operations. For the five years immediately preceding his employment he had held various management positions within the marine industry, most recently with West Marine, Inc., our largest customer.

Gregor M. Dornau is the son of Peter G. Dornau, our President and Chief Executive Officer. He has been employed by the Company as a salesman since 1990 and during 2005 he was elected to serve as Vice President-Sales.

James M. Kolisch joined our Board of Directors as an outside director in May 1998. During the past five years, Mr. Kolisch has been engaged in the insurance industry and served as president of USI Florida an entity that sources most of the our insurance needs. Mr. Kolisch serves on the Board of Directors' Audit Committee.

Laz L. Schneider is, and has been for the past five years, an attorney in private practice and was elected to serve as an outside Director of the Company during May 1998. Mr. Schneider is a partner at Berger, Singerman, P.A., a law firm that serves as our lead counsel in various corporate and litigation matters.

John B. Turner joined our Board of Directors in June 2002. During the past five years, Mr. Turner has been retired. Prior to his retirement, he was an insurance executive. In addition to his insurance credentials, Mr. Turner holds a Series 7 stock brokerage license. His professional experience in the aforementioned areas spans in excess of twenty-five years. Mr. Turner serves on the Board of Directors' Audit Committee.

Sonia B. Beard is a Florida Certified Public Accountant working for Walt Disney World since 1997. She currently holds the position as the Manager of Concept Development for the Revenue Lines of Business of Walt Disney World. Ms. Beard has in excess of twelve years financial experience. She is an outside director and serves as the Chairperson and Financial Expert of the Board of

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Directors' Audit Committee.

### Audit Committee

We have an Audit Committee, which consists of Sonia B. Beard, John B. Turner and James M. Kolisch as of December 31, 2005. The Board has designated Sonia B. Beard as the "audit committee financial expert," as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934 and serves as its chairperson. The Board has determined that Sonia B. Beard, John B. Turner and James M. Kolisch are "independent directors" within the meaning of the listing standards of the Nasdaq Capital Market.

### Code of Ethics

We have adopted a Code of Business Conduct and Ethics, which is applicable to all directors, officers and employees of the company, including our principal executive officer, our principal financial officer, our principal accounting officer or controller or other persons performing similar functions. We filed our Code of Ethics as Exhibit 14.1 to our Annual Report on Form 10-K for the year ended December 31, 2004 and is incorporated herein by reference. The Company will provide a copy of this Code of Ethics to any person on written request to our principal financial officer.

### Compliance with Section 16(a) of the Exchange Act

Based solely on reviews of Forms 3 and 4 furnished to us by the aforementioned individuals, it was determined that no reporting person failed to file a timely submission of ownership changes and that we were in compliance with Rule 16(a)3(e) of the Exchange Act during our most recent fiscal year.

### Item 11. Management Remuneration and Transactions

The information required for this item is incorporated by reference to our Definitive Proxy Statement to be filed in conjunction with the annual shareholders' meeting that shall be filed with the United States Securities and Exchange Commission and sent out to shareholders prior to 120 days past our year-end of December 31, 2005.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information at December 31, 2005 with respect to the beneficial ownership of our common stock by holders of more than 5% of such stock and by all of our directors and officers as a group:

| Title of Class | Name and Address of Beneficial Owner  | Amount and Nature of Beneficial Ownership | Percent of Class |
|----------------|---|---|------------------|
| Common         | Peter G. Dornau, President, CEO,<br>Chairman Board of Directors<br>Fort Lauderdale, FL 33317  | 3,982,868 (1)                             | 54.0%            |
| Common         | Edward Anchel, Vice President-Finance,<br>CFO, Director<br>Boynton Beach, FL 33437            | 272,951 (2)                               | 3.7%             |
| Common         | Jeffrey J. Tieger, Vice President-Advertising,<br>Secretary, Director<br>Plantation, FL 33314 | 379,280 (3)                               | 5.14%            |

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|        |  |                                  |                          |
|--------|--|----------------------------------|--------------------------|
| Common | William W. Dudman, Vice President-Operations<br>Plantation, FL 33317 | 37,300 (4)                       | .51%                     |
| Common | Gregor M. Dornau, Vice President-Sales<br>Fort Lauderdale, FL 33315  | 238,380 (5)                      | 3.23%                    |
| Common | James M. Kolisch, Director<br>Coral Gables, FL 33114                 | 46,167 (6)                       | .63%                     |
| Common | Laz L. Schneider, Director<br>Fort Lauderdale, FL 33305              | 30,000 (7)                       | .41%                     |
| Common | John B. Turner, Director<br>Miami, FL 33186                          | 59,463 (8)                       | .81%                     |
| Common | Sonia B. Beard, Director<br>Merritt Island, FL 32952                 | 20,000 (9)                       | .27%                     |
| Common | All directors and officers as a group<br>9 individuals               | -----<br>5,066,409 (10)<br>===== | -----<br>68.71%<br>===== |

(1) Includes 1,162,500 shares that are issuable upon the exercise of stock options and/or warrants within 60 days of December 31, 2005.

(2) Includes 47,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(3) Includes 162,500 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(4) Includes 3,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(5) Includes 39,600 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(6) Includes 30,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(7) Includes 30,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(8) Includes 30,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(9) Includes 20,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2005.

(10) Includes 1,524,600 shares that are issuable upon the exercise of stock options and/or warrants within 60 days of December 31, 2005.

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### Item 13. Certain Relationships and Related Transactions

On May 1, 1998, we entered into a ten-year lease for approximately 12,700 square feet of office and warehouse facilities in Fort Lauderdale, Florida from an entity fifty percent owned each by Messrs. Peter G. Dornau and Jeffrey J. Tieger, our President and Vice President-Advertising, respectively. The lease

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required a minimum rental of \$94,800 the first year and provides for a maximum 2% increase on the anniversary of the lease throughout the term. Additionally, the landlord is entitled to collect from us its pro-rata share of all taxes, assessments, insurance premiums, operating charges, maintenance charges and any other expenses, which normally arise from ownership. We believe that the terms of this lease are comparable to those of similar properties in the same geographic area of the Company available from unrelated third parties. Rent charged to operations during the years ended December 31, 2005, 2004 and 2003 amounted to approximately \$100,500 each year.

We acquired the rights to the Star brite(R) trademark and related products for the United States and Canada in conjunction with our original public offering during March 1981. Peter G. Dornau, our president is the direct or beneficial owner of three companies that market Star brite(R) products outside the United States and Canada. These companies serve as distributors of our products and the terms of payment are the same as for our other customers. At December 31, 2005 and 2004, we had amounts due from affiliated companies, which are directly or beneficially owned by our president aggregating approximately \$29,022 and \$408,500, respectively.

Sales of Star brite products to such affiliates aggregated approximately \$826,898, \$616,800 and \$373,600 during the years ended December 31, 2005, 2004 and 2003, respectively.

A subsidiary of ours currently uses the services of an entity that is owned by our president to conduct product research and development. Such entity received \$30,000 per year during the years ended December 31, 2005, 2004 and 2003 under such relationship.

### Item 14. Principal Accounting Fees and Services

The information required for this item is incorporated by reference to our Definitive Proxy Statement to be filed in conjunction with the annual shareholders' meeting which shall be filed with the United States Securities and Exchange Commission and sent out to shareholders prior to 120 days past our year-end of December 31, 2005.

### Item 15. Exhibits, Financial Statements, Schedules and Reports Filed on Form 8K

As more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements, we are filing this amended Form 10-K/A including these substantive changes: (a) the recognition of the compensation cost associated with stock options of which certain terms were modified during the year ended December 31, 2004 and (b) the reclassification between debt and additional paid-in capital of certain of the proceeds from the Revolving Subordinated Obligation to our President and CEO, Peter G. Dornau received during the year ended December 31, 2005. Neither of these items have an impact on our previously reported cash flows.

#### (A) Consolidated financial statements:

(i) Consolidated balance sheets as of December 31, 2005 and 2004.

(ii) Consolidated statements of operations for each of the three years ended December 31, 2005, 2004 and 2003.

(iii) Consolidated statement of shareholders' equity for each of the three years ended December 31, 2005, 2004 and 2003.

(iv) Consolidated statements of cash flows for each of the three years ended December 31, 2005, 2004 and 2003.

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(v) Notes to consolidated financial statements.

(a) All schedules are omitted because either they are not applicable or the required information is shown in the consolidated financial statement or the notes thereto.

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(B) Exhibits

3.1 Articles of Incorporation (incorporated by reference to the Company's Registration Statement on Form S-18 filed with the United States Securities and Exchange Commission on March 26, 1981).

3.2 Bylaws (incorporated by reference to the Company's Registration Statement on Form S-18 filed with the United States Securities and Exchange Commission on March 26, 1981).

4.1 Form of Certificate for Series 1997 Bonds\*

4.2 Form of Certificate for Series 2002 Bond\*

4.3 Trust Indenture dated as of December 1, 1996 between the IDB Board and Regions Bank, as Trustee and Registrar relating to the \$4,000,000 1997 IDB Bonds\*

4.4 Supplement to Trust Indenture for 1997 Bonds dated March 1, 1997\*.

4.5 Trust Indenture dated as of July 22, 2002 between the IDB Board and Regions Bank, as Trustee and Registrar relating to the \$3,500,000 Taxable IDB Bonds Series 2002\*

10.1 Restated Lease Agreement dated as of December 1, 1996 between The Industrial Development Board of the City of Montgomery ("IDB Board") and Kinpak, Inc.\*

10.2 First Supplemental Lease dated as of March 1, 1997 between the IDB Board and Kinpak, Inc.\*

10.3 Second Supplemental Lease dated as of July 1, 2002 between the IDB Board and Kinpak, Inc.\*

10.4 Credit Agreement dated as of July 1, 2002 by and among the Company, Star-Brite Distributing, Inc., Star Brite-Automotive, Inc., Star-Brite Distributing (Canada), Inc., Kinpak Inc. and Regions Bank\*

10.5 Amendment to Credit Agreement dated June 1, 2004 by and among the Company, Star-Brite Distributing, Inc., Star-Brite Automotive, Inc., Star Brite Distributing (Canada), Inc., Kinpak, Inc. and Regions Bank\*

10.6 Mortgage, Assignment of Leases and Security Agreement dated as of July 1, 2002 between Kinpak, Inc. and Regions Bank.\*

10.7 Security Agreement dated as of July 22, 2002 between Kinpak, Inc. and Regions Bank.\*

10.8 Irrevocable Letter of Credit dated July 22, 2002 issued by Regions Bank to secure the Series 1991 Bonds\*

10.9 Irrevocable Letter of Credit dated July 22, 2002 issued by Regions Bank to secure the Series 2002 Bonds\*

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10.10 Extension to Credit Agreement dated March 31, 2003 by and among the Company, Star-Brite Distributing, Inc., Star-Brite Automotive, Inc., Star Brite Distributing (Canada), Inc., Kinpak, Inc. and Bank\*

10.11 Ocean Bio-Chem, Inc. 1992 Incentive Stock Option Plan (incorporated by reference to Form S-8 filed with the United States Securities and Exchange Commission on June 24, 1994).

10.12 Ocean Bio-Chem, Inc. 1994 Non-Qualified Stock Option Plan (incorporated by reference to Form S-8 filed with the United States Securities and Exchange Commission on June 24, 1994).

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10.13 Ocean Bio-Chem, Inc. 2002 Incentive Stock Option Plan (incorporated by reference to an exhibit contained in the Company's proxy statement filed with the United States Securities and Exchange Commission on April 28, 2003).

10.14 Lease dated May 1, 1998 between the Star Brite Distributing, Inc. and PEJE, Inc.\*

14.1 Code of Ethics (incorporated by reference to an exhibit contained in the Company's proxy statement filed with the United States Securities and Exchange Commission on April 13, 2004).

### 21. List of Subsidiaries \*\*

31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley \*\*

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley \*\*

32.1 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley \*\*

32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley \*\*

\* Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2004.

\*\* Attached hereto.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

OCEAN BIO-CHEM, INC.  
Registrant

By:/s/ Peter G. Dornau  
PETER G. DORNAU  
Chairman of the Board of Directors  
and Chief Executive Officer

August 31, 2006

By:/s/ Edward Anchel  
EDWARD ANCHEL  
Chief Financial Officer

August 31, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature                                  | Capacity   | Date            |
|--|--|-----------------|
| /s/ Peter G. Dornau<br>Peter G. Dornau     | President, Chief Executive<br>Officer and Director           | August 31, 2006 |
| /s/ Edward Anchel<br>Edward Anchel         | Vice President Finance, Chief<br>Financial Officer, Director | August 31, 2006 |
| /s/ Jeffrey J. Tieger<br>Jeffrey J. Tieger | Vice President, Secretary<br>and Director                    | August 31, 2006 |
| /s/ James M. Kolisch                       | Director   | August 31, 2006 |



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James M. Kolisch

/s/ Laz L. Schneider                      Director                      August 31, 2006  
Laz Schneider

/s/ John B. Turner                      Director                      August 31, 2006  
John B. Turner

/s/ Sonia B. Beard                      Director                      August 31, 2006  
Sonia B. Beard

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has not sent an annual report or proxy material to security-holders as of this date. Subsequent to this filing the Registrant will produce an annual report and definitive proxy materials for its Annual Meeting of Shareholders. Copies of such shall be filed with the United States Securities and Exchange Commission pursuant to the current requirements.

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EXHIBIT 21

The following is a list of the Registrant's subsidiaries:

| Name:                                | Ownership % |
|--------------------------------------|-------------|
| Star brite Distributing, Inc.        | 100         |
| Star brite Distributing Canada, Inc. | 100         |
| D & S Advertising Services, Inc.     | 100         |
| Star brite Staput, Inc.              | 100         |
| Star brite Service Centers, Inc.     | 100         |
| Star brite Automotive, Inc.          | 100         |
| Kinpak Inc.                          | 100         |

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EXHIBIT 32.1/2

CERTIFICATION

Pursuant to 18U.S.C. Section 1350, the undersigned officers of Ocean Bio-Chem, Inc. (the "Company"), hereby certify that the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: August 31, 2006

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

/s/ Edward Anchel  
Edward Anchel  
Chief Financial  
Officer

CERTIFICATION

I, Peter G. Dornau certify that:

1. I have reviewed this Form 10-K/A of Ocean Bio-Chem, Inc. as of and for the period ended December 31, 2005;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 31, 2006

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

Exhibit 31.2

### CERTIFICATION

I, Edward Anchel certify that:

1. I have reviewed this Form 10-K/A of Ocean Bio-Chem, Inc. as of and for the period ended December 31, 2005;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such

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disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 31, 2006

/s/ Edward Anchel  
Edward Anchel  
Chief Financial Officer

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

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### OCEAN BIO-CHEM, INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

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#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Ocean Bio-Chem, Inc.  
Ft. Lauderdale, Florida

We have audited the accompanying consolidated balance sheets of Ocean Bio-Chem, Inc. (the "Company") and subsidiaries, as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Ocean Bio-Chem, Inc for the year ending December 31, 2003, were audited by other auditors whose report thereon, dated March 25, 2004, expressed an unqualified opinion.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes

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examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ocean Bio-Chem, Inc. and subsidiaries as of December 31, 2005 and 2004 and the consolidated results of its operations and its consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

LEVI, CAHLIN & CO.  
North Miami Beach, Florida  
March 22, 2006, except as to note 12, as to which  
the date is August 25, 2006

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Ocean Bio-Chem, Inc. and its Subsidiaries  
Fort Lauderdale, Florida

We have audited the consolidated statements of operations, shareholders' equity, and cash flows for Ocean Bio-Chem, Inc. (the "Company") and its subsidiaries for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes

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assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Ocean Bio-Chem, Inc. and Subsidiaries for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Berkovits, Lago & Company, LLP  
Fort Lauderdale, Florida  
March 25, 2004

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### OCEAN BIO-CHEM, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2005 AND 2004

| ASSETS  | 2005                | 2004                |
|---|---------------------|---------------------|
|   | -----<br>(Restated) | -----<br>(Restated) |
| Current Assets  |                     |                     |
| Cash  | \$ 204,543          | \$ 988,             |
| Trade accounts receivable net of allowance for<br>doubtful accounts of approximately \$131,000<br>and \$201,000, respectively | 2,027,162           | 4,652,              |
| Inventories   | 6,260,813           | 5,218,              |
| Refundable income taxes   | 274,500             |                     |
| Prepaid expenses and other current assets   | 235,574             | 214,                |
|   | -----               | -----               |



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|  |              |           |
|--|--------------|-----------|
| Total current assets   | 9,002,592    | 11,073,   |
|  | -----        | -----     |
| Property, plant and equipment, net   | 7,310,640    | 7,337,    |
|  | -----        | -----     |
| Other assets:  |              |           |
| Funds held in escrow for equipment   | -            | 1,        |
| Trademarks, trade names, and patents   | 330,439      | 330,      |
| Due from affiliated companies  | 29,022       | 408,      |
| Deposits and other assets  | 230,329      | 246,      |
|  | -----        | -----     |
| Total other assets   | 589,790      | 987,      |
|  | -----        | -----     |
| Total assets   | \$16,903,022 | \$19,398, |
|  | =====        | =====     |
| LIABILITIES AND SHAREHOLDERS' EQUITY   |              |           |
| Current liabilities:   |              |           |
| Accounts payable trade   | \$ 1,256,640 | \$ 2,251, |
| Note payable bank  | 4,000,000    | 4,500,    |
| Current portion of long-term debt  | 580,852      | 483,      |
| Accrued expenses payable   | 451,977      | 374,      |
|  | -----        | -----     |
| Total current liabilities  | 6,289,469    | 7,608,    |
|  | -----        | -----     |
| Deferred income taxes payable  | -            | 260,      |
|  | -----        | -----     |
| Long-term debt less current portion  | 5,950,958    | 5,580,    |
|  | -----        | -----     |
| Commitments and contingencies  | -            | -         |
|  | -----        | -----     |
| Shareholders' equity:  |              |           |
| Common stock - \$.01 par value, 10,000,000 shares<br>authorized, 5,849,316 and 5,417,813 shares<br>issued and outstanding at December 31,<br>2005 and 2004, respectively | 58,493       | 54,       |
| Additional paid-in capital   | 5,397,845    | 4,901,    |
| Foreign currency translation adjustment  | ( 179,653)   | ( 204,    |
| Retained earnings (deficit)  | ( 605,895)   | 1,207,    |
|  | -----        | -----     |
|  | 4,670,790    | 5,957,    |
| Less treasury stock 7,519 shares, at cost  | ( 8,195)     | ( 8,      |
|  | -----        | -----     |
| Total shareholders' equity   | 4,662,595    | 5,949,    |
|  | -----        | -----     |
| Total liabilities and shareholders' equity   | \$16,903,022 | \$19,398, |
|  | =====        | =====     |

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

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OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

|       |            |       |
|-------|------------|-------|
| 2005  | 2004       | 2003  |
| ----- | -----      | ----- |
|       | (Restated) |       |

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|  |               |              |           |
|--|---------------|--------------|-----------|
| Gross Sales  | \$19,706,469  | \$24,361,056 | \$22,178, |
| Less discounts, returns and allowances                       | 2,054,564     | 2,703,973    | 2,180,    |
| Net sales  | 17,651,905    | 21,657,083   | 19,997,   |
| Cost of goods sold   | 14,640,883    | 16,675,780   | 15,131,   |
| Gross profit   | 3,011,022     | 4,981,303    | 4,865,    |
| Operating expenses:  |               |              |           |
| Advertising and promotion                                    | 1,110,258     | 942,991      | 742,      |
| Selling and administrative                                   | 3,775,848     | 3,607,205    | 3,329,    |
| Interest   | 499,433       | 307,840      | 290,      |
| Total operating expenses                                     | 5,385,539     | 4,858,036    | 4,362,    |
| Operating profit (loss)                                      | ( 2,374,517)  | 123,267      | 503,      |
| Interest and other income                                    | 26,824        | 955          | 19,       |
| Income (loss) before provision (benefit)<br>for income taxes | ( 2,347,693)  | 124,222      | 522,      |
| Provision (benefit) for income taxes                         | ( 534,500)    | 107,000      | 177,      |
| Net income (loss)  | ( 1,813,193)  | 17,222       | 345,      |
| Other comprehensive income:                                  |               |              |           |
| Foreign currency translation,<br>net of taxes                | 25,211        | 32,459       | 66,       |
| Comprehensive income (loss)                                  | (\$1,787,982) | \$ 49,681    | \$ 411,   |
| Earnings (loss) per share:                                   |               |              |           |
| Basic  | (\$ .32)      | \$ -         | \$        |
| Diluted  | (\$ .32)      | \$ -         | \$        |

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

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OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
ENDED DECEMBER 31, 2005, 2004 AND 2003

Foreign

Retained

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|  | Common stock<br>Shares | Amount   | Additional<br>paid-in capital<br>(Restated) | currency<br>adjustment | earnings<br>(deficit)<br>(Restated) |
|--|------------------------|----------|---|------------------------|-------------------------------------|
| January 1,<br>2003   | 4,805,843              | \$48,058 | \$4,341,629                                 | (\$ 303,575)           | \$ 845,000                          |
| Net income   |                        |          |   |                        | 345,070                             |
| Issuances of<br>common stock   | 155,000                | 1,550    | 68,200                                      |                        |                                     |
| Foreign currency<br>translation<br>adjustment  |                        |          |   | 66,252                 |                                     |
| December 31,<br>2003   | 4,960,843              | 49,608   | 4,409,829                                   | ( 237,323)             | 1,190,070                           |
| Net income   |                        |          |   |                        | 17,220                              |
| Issuances of<br>common stock   | 456,970                | 4,570    | 312,917                                     |                        |                                     |
| Compensation<br>cost associated<br>stock option<br>modifications   |                        |          | 178,332                                     |                        |                                     |
| Foreign currency<br>translation<br>adjustment  |                        |          |   | 32,459                 |                                     |
| December 31,<br>2004   | 5,417,813              | 54,178   | 4,901,078                                   | ( 204,864)             | 1,207,290                           |
| Net (loss)   |                        |          |   |                        | (1,813,190)                         |
| Issuances of<br>common stock   | 431,503                | 4,315    | 185,869                                     |                        |                                     |
| Compensation cost<br>associated with<br>warrants issued<br>pursuant to<br>Subordinated<br>Revolving Note |                        |          | 310,898                                     |                        |                                     |
| Foreign currency<br>translation<br>adjustment  |                        |          |   | 25,211                 |                                     |
| December 31,<br>2005   | 5,849,316              | \$58,493 | \$5,397,845                                 | (\$ 179,653)           | (\$ 605,890)                        |

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

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OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

|  | 2005<br>-----       | 2004<br>-----<br>(Restated) | 2003<br>-----      |
|--|---------------------|-----------------------------|--------------------|
| Cash flows from operating activities:  |                     |                             |                    |
| Net income (loss)  | (\$1,813,193)       | \$ 17,222                   | \$ 345,000         |
| Adjustments to reconcile net income (loss)<br>to net cash provided (used) by operations: |                     |                             |                    |
| Depreciation and amortization  | 762,943             | 735,103                     | 674,000            |
| Issuance of common stock to employees  | 97,265              | 87,813                      | 69,000             |
| Compensation cost associated with stock<br>option modifications                          | -                   | 178,332                     |                    |
| Changes in assets and liabilities:   |                     |                             |                    |
| (Increase) decrease in accounts receivable   | 2,624,982           | ( 319,121)                  | ( 1,142,000)       |
| (Increase) decrease in inventory   | ( 1,042,381)        | 97,310                      | ( 774,000)         |
| (Increase) in recoverable income taxes   | ( 274,500)          | -                           |                    |
| (Increase) decrease in prepaid expenses  | ( 21,083)           | ( 21,120)                   | 268,000            |
| (Decrease) increase in accounts payable<br>and accrued taxes and other                   | ( 1,160,393)        | 1,148,030                   | ( 540,000)         |
| Net cash provided (used) by operating activities   | ( 826,360)          | 1,923,569                   | ( 1,099,000)       |
| Cash flows from financing activities:  |                     |                             |                    |
| Net borrowings (reductions) under line of credit   | ( 500,000)          | ( 50,000)                   | 300,000            |
| (Increase)decrease in amounts due from affiliates  | 379,454             | ( 235,551)                  | 439,000            |
| Increases in (reductions to) long-term debt, net   | ( 370,655)          | ( 513,293)                  | ( 587,000)         |
| Increase in notes payable - Peter Dornau and<br>affiliates                               | 1,150,000           | -                           |                    |
| Issuance of common stock from exercised<br>stock options                                 | 92,919              | 229,674                     |                    |
| Net cash provided (used) by financing activities   | 751,718             | ( 569,170)                  | 152,000            |
| Cash flows used by investing activities:   |                     |                             |                    |
| Purchases of property, plant and equipment   | ( 735,983)          | ( 566,117)                  | ( 1,204,000)       |
| Utilization of (additions to) trust funds for<br>equipment purchased, net                | 1,851               | 124,442                     | 1,034,000          |
| Net cash used by investing activities  | ( 734,132)          | ( 441,675)                  | ( 169,000)         |
| Increase (decrease) in cash prior to effect of<br>exchange rate on cash                  | ( 808,774)          | 912,724                     | ( 1,117,000)       |
| Effect of exchange rate on cash  | 25,211              | 32,459                      | 66,000             |
| Net increase (decrease) in cash  | ( 783,563)          | 945,183                     | ( 1,050,000)       |
| Cash at beginning of year  | 988,106             | 42,923                      | 1,093,000          |
| Cash at end of year  | \$ 204,543<br>===== | \$ 988,106<br>=====         | \$ 42,000<br>===== |
| Supplemental information   |                     |                             |                    |
| Cash paid for interest during year   | \$ 499,433          | \$ 307,840                  | \$ 290,000         |

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|   |            |            |        |
|---|------------|------------|--------|
| Cash paid for income taxes during year  | \$ -       | \$ 149,000 | \$ 60, |
| Non-cash transactions - compensation cost<br>associated with stock options and warrants | \$ 310,898 | \$ 178,332 | \$     |

The Company had no cash equivalents at December 31, 2005, 2004, and 2003.

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

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OCEAN BIO-CHEM, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED STATEMENTS  
 YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

Note 1 - Organization and summary of significant accounting policies:

Organization - The Company was incorporated during November, 1973 under the laws of the state of Florida and operates as a manufacturer and distributor of products principally under the Star brite(R) brand to the marine, automotive and recreational vehicle aftermarkets.

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Revenue recognition - Revenue from product sales is recognized when persuasive evidence of an arrangement exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectibility of the related receivable is probable.

Inventories - Inventories are primarily composed of raw materials and finished goods and are stated at the lower of cost, using the first-in, first-out method, or market. The composition of inventories at December 31, 2005 and 2004 are as follows:

|                | 2005        | 2004        |
|----------------|-------------|-------------|
| Raw materials  | \$3,235,086 | \$3,111,394 |
| Finished goods | 3,025,727   | 2,107,038   |
|                | -----       | -----       |
|                | \$6,260,813 | \$5,218,432 |
|                | =====       | =====       |

Prepaid advertising and promotion - During the years ended December 31, 2005, 2004 and 2003, the Company introduced certain new products to its customers. In connection therewith, the Company produced new promotional items to be distributed over a period of time and increased its catalog advertising. The Company follows the policy of amortizing these costs over a one-year basis. At December 31, 2005 and 2004, the accumulated cost of materials on hand and other deferred promotional costs that were or will be charged against the subsequent year's operations amounted to approximately \$16,486 and \$25,900, respectively.

Property, plant and equipment - Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method.

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Stock based compensation - The Company follows the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, to record compensation costs. Opinion No. 25 requires that compensation cost be based on the difference, if any, between the quoted market price of the stock and the price the employee must pay to acquire the stock depending on the terms of the award. For the years ended December 31, 2005, 2004 and 2003, the Company has not adopted Statement of Financial Accounting Standards No. 123 to record such compensation costs.

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

Concentration of credit risk - Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. The Company's five largest customers represented approximately 43%, 55% and 55% of consolidated gross revenues for the years ended December 31, 2005, 2004 and 2003; and 26% and 77% of consolidated accounts receivable at December 31, 2005 and 2004, respectively. The Company has a longstanding relationship with each of these entities and has always collected open receivable balances. However, the loss of any of these customers could have an adverse impact on the Company's operations.

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Concentration of cash - At various times of the year and at December 31, 2005, the Company had a concentration of cash in one bank in excess of prevailing insurance offered through the Federal Deposit Insurance Corporation at such institution. Management does not consider the excess deposits to be a significant risk.

Fair value of financial instruments - The carrying amount of cash approximates its fair value. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities, and the carrying amount approximates fair value.

Income taxes - The Company and its subsidiaries file consolidated federal and state income tax returns. The Company has adopted Statement of Financial Accounting Standards No. 109 in the accompanying consolidated financial statements. The only temporary differences included therein are attributable to differing methods of reflecting depreciation for financial statement and income tax purposes.

Trademarks, trade names and patents - The Star brite trade name and trademark were purchased in 1980 for \$880,000. The cost of such intangible assets was amortized on a straight-line basis over an estimated useful life of 40 years through December 31, 2001. Effective January 1, 2002 and pursuant to Statement of Financial Accounting Standards No. 142, the Company has determined that the carrying value of such intangible assets relating to its Star brite(R) brand does not require further amortization. In addition, the Company owns two patents that it believes are valuable in limited product lines, but not material to its success or competitiveness in general. There are no capitalized costs of these two patents. Management has considered the impact of the loss sustained for the year ended December 31, 2005 in order to determine if a permanent impairment of value of these assets has been experienced. The underlying reasons for the loss are not viewed as permanent in nature and, management does not believe that a permanent impairment has been realized. Accordingly, no adjustment has been made.

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Translation of Canadian currency - The accounts of the Company's Canadian subsidiary are translated in accordance with Statement of Financial Accounting Standards No. 52, which requires that foreign currency assets and liabilities be translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as the translation adjustment in shareholders' equity. Realized gains and losses from foreign currency transactions, if any, are included in net earnings of the period.

Reclassifications - Certain items in the accompanying consolidated financial statements for the years ended December 31, 2004 and 2003 have been reclassified to conform with the 2005 presentation.

Note 2 - Property, plant and equipment:

The Company's property, plant and equipment consisted of the following:  
December 31, 2005 2004

|  |              |              |
|--|--------------|--------------|
| Land                                     | \$ 278,325   | \$ 278,325   |
| Building                                 | 4,390,894    | 4,390,894    |
| Manufacturing and warehouse equipment    | 6,044,138    | 5,359,009    |
| Office equipment and furniture           | 652,940      | 623,825      |
| Construction in process                  | 278,239      | 261,693      |
| Leasehold improvement                    | 145,505      | 151,976      |
|  | -----        | -----        |
|  | 11,790,041   | 11,065,722   |
| Less accumulated depreciation            | 4,479,401    | 3,728,122    |
|  | -----        | -----        |
| Total property, plant and equipment, net | \$ 7,310,640 | \$ 7,337,600 |
|  | =====        | =====        |

Depreciation expense for the years ended December 31, 2005, 2004 and 2003, which includes amortization of capitalized lease assets, amounted to approximately \$762,900, \$735,100 and \$675,100, respectively.

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Included in property, plant and equipment are the following assets at the Company's Alabama subsidiary and which are substantially held under capitalized leases securing certain City of Montgomery, AL Industrial Development Bonds:

|                                       | December 31, |             |
|---------------------------------------|--------------|-------------|
|                                       | 2005         | 2004        |
|                                       | -----        | -----       |
| Land                                  | \$ 278,325   | \$ 278,325  |
| Building                              | 4,390,894    | 4,390,894   |
| Manufacturing and warehouse equipment | 5,747,411    | 4,867,141   |
| Construction in process               | 274,843      | 261,693     |
|                                       | -----        | -----       |
|                                       | 10,691,473   | 9,798,053   |
| Less accumulated depreciation         | 3,557,788    | 2,773,757   |
|                                       | -----        | -----       |
| Total                                 | \$ 7,133,685 | \$7,024,296 |
|                                       | =====        | =====       |

During February 1996, the Company purchased the assets of Kinpak, Inc. In order to finance the expansion contemplated by the purchase, the Company entered into an agreement with the City of Montgomery to issue Industrial Development

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Bonds. The Alabama facility expansion consisted of an additional building, which was completed during October 1997, bringing the facility, at that time, to approximately 110,000 square feet. Such facility serves as the Company's primary manufacturing and distribution center.

During the year ended December 31, 2002, the Company entered into an agreement with the City of Montgomery to issue an additional series Industrial Development Bonds aggregating \$3,500,000 to finance the construction of an additional 70,000 square feet of warehousing and manufacturing space and the related equipment requirements. Such project was substantially completed during 2003.

Management has considered the impact of the loss sustained for the year ended December 31, 2005 in order to determine if a permanent impairment of value of these assets has been experienced. The underlying reasons for the loss are not viewed as permanent in nature and, management does not believe that a permanent impairment has been realized. Accordingly, no adjustment has been made.

Obligations for future payments attributable to these capitalized leases are discussed in Note 4, below.

Note 3 - Note payable, bank:

During 2002, the Company secured a revolving line of credit, which provided a maximum of \$5 million of working capital from the commercial bank providing the financing for the expansion discussed in Note 2, above. The line carries interest based on the 30 day LIBOR rate plus 275 basis points (approximately 7.14% at December 31, 2005) payable monthly and is collateralized by the Company's inventory, trade receivables, and intangible assets. During May, 2004, the Company and its commercial bank agreed to increase the maximum allowed borrowing under the line to \$6 million. The remaining 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 were substantially unchanged. At December 31, 2005 the bank has waived the Company's non-compliance with certain of its financial covenants. This financing matures on May 31, 2006. As of December 31, 2005, the Company was obligated to its commercial lender under this arrangement in the amount of \$4,000,000.

Note 4 - Long -Term debt:

Long-term debt at December 31, 2005 consisted of the following:

The Company is obligated pursuant to capital leases financed through Industrial Development Bonds. Such obligations were incurred during 1997 and 2002 in connection with building and equipment expansion at the Company's Alabama manufacturing and distribution facility. Both bear interest at tax-free rates that adjust weekly. At December 31, 2005, \$2,125,000 and \$3,080,000 were outstanding attributable to the 1997 and 2002 series, respectively. During the year ended December 31, 2005 interest rates ranged between 1.8% and 3.3%. Principal and accrued interest retiring the underlying bonds are payable quarterly through March, 2012 and July, 2017 for the 1997 and 2002 series,

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respectively. Repayment of the bonds is guaranteed by a Letter of Credit issued by the Company's primary commercial bank. Security for the Letter of Credit is a priority first mortgage on the Kinpak facility and manufacturing equipment. During 2005 and 2004, the Company, through its subsidiary, Kinpak Inc., was obligated pursuant to various capital lease agreements covering equipment



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utilized in the Company's Alabama plant. Such obligations, aggregating approximately \$56,300 at December 31, 2005, have varying maturities through 2009 and carry interest rates ranging from 7% to 12%.

On April 12, 2005 we entered into a financing obligation with Regions Bank whereby they advanced us \$500,000 to finance equipment acquisitions at our Kinpak facility. Such obligation is due in monthly installments of principal aggregating approximately \$8,300 plus interest at prevailing rates (the outstanding balance and interest rate on this obligation at December 31, 2005 were approximately \$ 433,300 and prime plus 2.5% per annum, respectively) through maturity on April 15, 2010.

During the quarter ended December 31, 2005, we finalized a \$1.5 million revolving credit facility with our president and CEO, Peter G. Dornau. At December 31, 2005, \$1,150,000 was outstanding pursuant to this obligation which is due in October 2010 along with accrued interest at the rate of prime plus 2%. Such obligation is subordinate to all borrowings from Regions Bank. In connection with his offering to loan a maximum of \$1.5 million to the Company in order to bolster working capital, we issued warrants to Mr. Dornau to purchase a maximum of 1 million shares of our common stock. Such warrants are exercisable 500,000 shares at \$1.13 and 500,000 shares at \$.863. The exercise prices were determined by the closing bid of our stock plus ten (10) percent on each date of grant. In addition, he has the right, at his sole discretion, to convert such debt into a maximum of 1.5 million shares of our common stock at the rate of \$1.00 per share.

The composition of these obligations at December 31, 2005 and 2004 were as follows:

|                                     | Current Portion<br>2005 | 2004      | Long Term<br>2005 |
|-------------------------------------|-------------------------|-----------|-------------------|
|                                     | -----                   | -----     | -----             |
|                                     |                         |           | (Restated)        |
| Industrial Development Bonds        | \$460,000               | \$460,000 | \$4,745,000       |
| Notes payable                       | 99,996                  | 7,180     | 331,448           |
| Capitalized equipment leases        | 20,856                  | 15,932    | 35,408            |
| Subordinated note payable-P. Dornau | -                       | -         | 1,150,000         |
|                                     | -----                   | -----     | -----             |
|                                     | 580,852                 | 483,112   | 6,261,856         |
|                                     | -                       | -         | 310,898           |
|                                     | -----                   | -----     | -----             |
|                                     | \$580,852               | \$483,112 | \$5,950,958       |
|                                     | =====                   | =====     | =====             |

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

|                          |             |
|--------------------------|-------------|
| Year ending December 31, |             |
| 2006                     | \$ 580,852  |
| 2007                     | 579,279     |
| 2008                     | 571,757     |
| 2009                     | 564,360     |
| 2010                     | 1,643,352   |
| Thereafter               | 2,903,108   |
|                          | -----       |
| Total                    | \$6,842,708 |
|                          | =====       |

Note 5 - Income taxes:

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The Components of the Company's consolidated income tax provision are as follows:

|                                 | Year ended December 31, |            |           |
|---------------------------------|-------------------------|------------|-----------|
|                                 | 2005                    | 2004       | 2003      |
| Income tax provision (benefit): |                         | (Restated) |           |
| Federal - current               | (\$ 274,500)            | \$ 46,600  | \$140,000 |
| - deferred                      | ( 260,000)              | 54,400     | 37,800    |
| State                           | -                       | 6,000      | -         |
| Total                           | (\$ 534,500)            | \$ 107,000 | \$177,800 |

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The reconciliation of income tax provision at the statutory rate to the reported income tax expense is as follows: Year ended December 31,

|   | 2005    | 2004   |
|---|---------|--------|
| Computed at statutory rate  | (34.0%) | 34.0%  |
| State tax, net of federal benefit                                     | -       | 5.5    |
| Not being able to utilize entire tax benefit as a carry-back          | 11.2%   | -      |
| Other, principally deferred income taxes attributable to depreciation | -       | 16.0   |
| Effective tax rate  | (22.8%) | 55.5 % |

At December 31, 2005 the Company had available tax loss carryovers available as offsets against future taxable income aggregating approximately \$776,800 and \$2,315,700 for federal and Florida purposes, respectively expiring in 2025. If fully utilizable, such carryovers would result in a deferred tax asset of approximately \$264,100 as of December 31, 2005. There is no assurance that the Company will ever avail itself of all or a portion of such credits, accordingly, a valuation allowance has been established against this deferred asset. The Company's deferred tax asset and liability accounts consisted of the following at December 31:

|                          | 2005       | 2004        |
|--------------------------|------------|-------------|
| Deferred tax asset       | \$ 264,100 | \$ -        |
| Less valuation allowance | ( 264,100) | -           |
| Deferred Tax Liability   | -          | ( 260,000)  |
| Total                    | (\$ - )    | (\$260,000) |

During the year ended December 31, 2005, we reversed deferred income taxes

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payable aggregating \$260,000 as the underlying reason for such deferral was the timing differences between our financial statement and income tax treatment of depreciation expense and such differences are anticipated to reverse during the available time of existing income tax loss carryovers. At December 31, 2004 deferred income taxes payable aggregated \$260,000 and is reflected on the accompanying consolidated balance sheet.

### Note 6 - Related party transactions:

At December 31, 2005 and 2004, the Company had amounts receivable from and payable to affiliated companies, which are directly or beneficially owned by the Company's president, aggregating on a net basis to a receivable of approximately \$29,000 and \$408,500, respectively. Such amounts result from sales to the affiliates, allocations of expenses incurred by the Company on the affiliates' behalf and funds advanced to or from the Company.

Sales to such affiliates aggregated approximately \$826,900, \$616,800, and \$373,600 during the years ended December 31, 2005, 2004, and 2003, respectively.

Subsequent to the balance sheet date, on March 10, 2006, an affiliate offered to forgive the Company's indebtedness to such entity in the approximate amount of \$295,000. Accordingly, during the first quarter of 2006, the Company will reflect this transaction.

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### Note 7 - Commitments and subsequent event:

On May 1, 1998, the Company entered into a ten year lease for approximately 12,700 square feet of office and warehouse facilities in Fort Lauderdale, Florida from an entity owned by certain officers of the Company. The lease required a minimum rental of \$94,800 for the first year and provides for a maximum 2% increase on the anniversary of the lease throughout the term. Additionally, the landlord is entitled to its pro-rata share of all taxes, assessments, and any other expenses that arise from ownership. Rent charged to operations during the years ended December 31, 2005, 2004, and 2003 amounted to approximately \$100,500 each year.

The Company has entered into a corporate guaranty of a mortgage note obligation of such affiliate. The obligation aggregating approximately \$336,900 at December 31, 2005 is primarily secured by the real estate leased to the Company.

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

| Year ending December 31, |            |
|--------------------------|------------|
| 2006                     | \$ 104,507 |
| 2007                     | 106,597    |
| 2008                     | 108,729    |
| 2009-10                  | -          |
| Thereafter               | -          |
|                          | -----      |

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Total           \$ 319,833  
 =====

In conjunction with an agreement with an investment banker to provide financial advisory and other services, we issued warrants to purchase 275,000 shares of the Company's common stock at an exercise price of \$1.27 per share. The covered shares and the exercise price were adjusted for stock dividends distributed during the year ended December 31, 2002. This agreement was terminated during 2004. During February 2005, the Company issued 150,003 shares of its common stock to its former investment banker pursuant to a cashless exercise of warrants granted during 2002.

### Note 8 - Stock options:

During 1992, the Company adopted an incentive stock option plan covering 200,000 shares of its common stock. During 1994, the Company adopted a non-qualified employee stock option plan covering 400,000 shares of its common stock. During 2002, the Company adopted a qualified employee incentive stock option plan and a non-qualified stock option plan covering 400,000 and 200,000 shares of its common stock, respectively.

The following schedule reflects the status of outstanding options under the Company's four stock option plans as of December 31, 2005, as adjusted for the Company's stock dividend distributions of 2000 and 2002.

| Plan | Date granted | Options outstanding | Exercisable options | Exercise price | Expiration date | Weighted Average remaining 1 |
|------|--------------|---------------------|---------------------|----------------|-----------------|------------------------------|
| ---- | -----        | -----               | -----               | -----          | -----           | -----                        |
| 1992 | 12/20/01     | 154,000             | 123,200             | \$1.009        | 12/19/06        | 1.00                         |
| 1994 | 10/26/04     | 174,500             | 34,900              | \$1.050        | 10/25/09        | 3.83                         |
| 2002 | 10/22/02     | 135,000             | 81,000              | \$1.260        | 10/21/07        | 1.75                         |
| 2002 | 03/02/04     | 155,000             | 31,000              | \$1.620        | 03/01/09        | 3.25                         |
| 2002 | 10/22/02     | 35,000              | 35,000              | \$1.260        | 10/21/07        | 1.75                         |
| 2002 | 06/20/03     | 40,000              | 40,000              | \$1.030        | 06/19/08        | 2.50                         |
| 2002 | 05/25/04     | 40,000              | 40,000              | \$1.460        | 05/04/09        | 3.50                         |
|      |              | -----               | -----               |                |                 | ----                         |
|      |              | 733,000             | 385,100             |                |                 | 2.54                         |
|      |              | =====               | =====               |                |                 | ====                         |

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On March 25, 1999, the Company granted two officers a five-year option for 115,500 shares each, as adjusted for the Company's stock dividend distributions of 2000 and 2002, at an exercise price of \$.758 representing the market price at the time of grant. Such grants were awarded in consideration of a loan to the Company in the amount of \$400,000 from an affiliated company in which they are each 50% co-shareholders. During 2004, the underlying loan was modified to extend the maturity date and, accordingly, the options were extended for an additional five years expiring March 25, 2009.

Statement of Financial Accounting Standards No. 123 requires that companies that continue to account for employer stock options under APB No. 25 disclose pro forma net income and earnings per share as if such Statement had been

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applied. The following table is presented pursuant to such requirement.

|                           |             | 2005          | 2004        | 2003      |
|---------------------------|-------------|---------------|-------------|-----------|
|                           |             | -----         | -----       | -----     |
|                           |             |               | (Restated)  |           |
| Net (loss) income         | As reported | (\$1,813,193) | \$ 17,222   | \$ 345,07 |
|                           | Pro forma   | (\$1,858,710) | (\$ 18,604) | \$ 301,88 |
| Earnings (loss) per share | As reported | (\$ .32)      | \$ -        | \$ .0     |
|                           | Pro forma   | (\$ .32)      | \$ -        | \$ .0     |

A summary of the Company's stock options as of December 31, 2005, 2004 and 2003, and changes during the years ending on these dates, is presented below:

|                        | 2005               |                                       | 2004               |                                       |          |
|------------------------|--------------------|---------------------------------------|--------------------|---------------------------------------|----------|
|                        | Optioned<br>Shares | Weighted<br>average<br>exercise price | Optioned<br>shares | Weighted<br>average<br>exercise price |          |
| Options outstanding    |                    |                                       |                    |                                       |          |
| at beginning of year   | 1,183,000          | \$1.12                                | 1,106,210          | \$ .95                                | 1,082,21 |
| Granted                | -                  |                                       | 412,500            |                                       | 40,00    |
| Expired                | ( 59,000)          |                                       | ( 19,240)          |                                       | ( 16,00  |
| Exercised              | ( 159,500)         |                                       | ( 316,470)         |                                       | -        |
|                        | -----              | -----                                 | -----              | -----                                 | -----    |
| Options outstanding at |                    |                                       |                    |                                       |          |
| end of year            | 964,500            | \$1.12                                | 1,183,000          | \$1.12                                | 1,106,21 |
|                        | =====              | =====                                 | =====              | =====                                 | =====    |

Stock options are granted annually to selective executives, key employees, directors and others pursuant to the terms of the Company's various plans. Such grants are made at the discretion of the Board of Directors. Options typically have a five-year life with vesting occurring at 20% per year on a cumulative basis with forfeiture at the end of the option, if not exercised.

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following assumptions for the years 2005, 2004 and 2003; risk free rate 6.5%, no dividend yield for all years, expected life of five years and volatility of 31.6%.

During the quarter ended December 31, 2005, we finalized a \$1.5 million revolving credit facility with our president and CEO, Peter G. Dornau. In connection with his offering to loan such funds to the Company, we issued warrants to Mr. Dornau to purchase a maximum of 1 million shares of our common stock. Such warrants are exercisable 500,000 shares at \$1.13 and 500,000 shares at \$.863. The exercise prices were determined by the closing bid of our stock plus ten (10) percent on each date of grant. In addition, he has the right, at his sole discretion, to convert such debt into a maximum of 1.5 million shares of our common stock at the rate of \$1.00 per share. The potential shares issuable under this arrangement are not reflected in the foregoing tabulations.

Note 9 - Major customers:

The Company has one major customer, West Marine, Inc., with sales in excess

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of 10% of consolidated gross revenue for the years ended December 31, 2005, 2004, and 2003. Sales to this customer represented approximately 26%, 39% and 36% of consolidated gross revenues for such periods, respectively.

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The Company's top five customers represented approximately 43%, 55%, and 55% of consolidated revenues and 26%, 77% and 76% of consolidated trade receivables for the years ended December 31, 2005, 2004, and 2003, and at the balance sheet date for the years then ended, respectively. The Company enjoys good relations with these customers. However, the loss of any of these customers could have an adverse impact on the Company's operations.

Note 10 - Earnings per share:

Earnings per share are reported pursuant to the provisions of Statement of Financial Standards No. 128. Accordingly, basic earnings per share reflects the weighted average number of shares outstanding during the year, and diluted shares adjusts that figure by the additional hypothetical shares that would be outstanding if all exercisable outstanding common stock equivalents with an exercise price below the current market value of the underlying stock were exercised. Common stock equivalents consist of stock options and warrants. The following tabulation reflects the number of shares utilized to determine basic and diluted earnings per share for the years ended December 31, 2005, 2004, and 2003:

|         | 2005      | 2004      | 2003      |
|---------|-----------|-----------|-----------|
| Basic   | 5,700,774 | 5,356,316 | 4,888,133 |
| Diluted | 5,844,750 | 5,500,113 | 5,338,015 |

Note 11 - Shareholders' equity:

During the years ended December 31, 2005, 2004 and 2003 the Company awarded 122,000, 140,500 and 155,000 shares of restricted common stock, respectively to certain executives, key employees and others as a component of annual compensation. Charges to operations attributable to such awards aggregated approximately \$97,300, \$87,800 and \$67,500 for each period, respectively.

During August 2005, certain employees of the Company exercised stock options scheduled to expire during 2005 covering 159,500 shares of its common stock. The aggregate exercise price of such transaction amounted to approximately \$92,900 and is reflected in the accompanying financial statements as additional paid-in capital.

Note 12 - Restatements:

Year ended December 31, 2005:

During the fourth quarter of 2005, we finalized a financing arrangement with our President and Chief Executive Officer, Peter G. Dornau. The terms of such financing are disclosed above in Note 4 - Long-term debt and Note 8 - Stock options. In our original Form 10-K filing we treated all of the proceeds we received from draws against this revolving loan as debt. At that time we did not compute the fair value of the warrants issued to Mr. Dornau and reclassify such amount as additional paid-in capital along with a related "compensation cost" or

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imputed interest to be amortized over the five year life of the obligation. Utilizing a Black-Scholes pricing model, the allocation that should have been made during December 2005 aggregates \$310,898. This reclassification, incorporated herein, did not impact our previously reported cash flows or operating results for the year ended December 31, 2005. However, had the reclassification been made on a timely basis, long-term obligations would have been reduced and shareholders' equity would have been increased by the \$310,898 at December 31, 2005.

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ear ended December 31, 2004:

During March 1999, the Company granted two officers five-year stock options covering 115,500 shares each, in consideration of a loan made to the Company in the amount of \$400,000 from an affiliated company in which they are each 50% co-shareholders. During March 2004, the underlying loan was modified to extend the maturity date and, accordingly, the options were also extended for an additional five years expiring March 25, 2009. As the options were granted at fair market value on the original date of grant, there was no "compensation cost" to be recognized. However, at the date of modification, the market value of our stock exceeded the options' exercise price. Accordingly, there was an "intrinsic value" aggregating \$178,332 that should have been recorded as a charge against operations during the year ended December 31, 2004. This adjustment, incorporated herein, did not impact our previously reported cash flows ended December 31, 2004.

The effect of the foregoing on our consolidated balance sheet and the consolidated statement of operations as of December 31, 2005 and 2004 and the years then ended is as follows:

Consolidated Balance Sheet at December 31, 2005 and 2004:

|   | Long- term debt<br>2005 | 2004        | Sharehol<br>2005 |
|---|-------------------------|-------------|------------------|
|   | -----                   | -----       | -----            |
| As originally reported  | \$6,261,856             | \$5,580,250 | \$4,290,69       |
| Reclassification of imputed interest associated with warrants issued pursuant to Subordinated Revolving Note Payable                        | ( 310,898)              | -           | 310,89           |
| Recognition of compensation cost associated with stock options granted to Messrs. Dornau and Tieger as to which certain terms were modified | -                       | -           | 61,00            |
| As restated   | \$5,950,958             | \$5,580,250 | \$4,662,59       |
|   | =====                   | =====       | =====            |

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Consolidated Statement of Operations for year ended December 31, 2005 and 2004:

|   | 2005              |                     |                 |
|---|-------------------|---------------------|-----------------|
| Income (loss) before provision for income taxes,<br>as originally reported  |                   | (\$2,347,693)       |                 |
| Recognition of compensation cost associated with<br>stock options granted to Messrs. Dornau and Tieger<br>as to which certain terms were modified |                   | -                   |                 |
| Income (loss) before provision for income taxes,<br>as restated   |                   | ( 2,347,693)        |                 |
| Provision (benefit)for Income Taxes, as<br>originally reported  | (\$534,500)       |                     | \$ 168,000      |
| Reduction in provision for Income Taxes<br>attributable to the foregoing  | -                 | ( 534,500)          | ( 61,000)       |
| Net income (loss), as restated  |                   | (\$1,813,193)       |                 |
| Earnings (loss)per share:   |                   |                     |                 |
| As originally reported  | Basic<br>(\$ .32) | Diluted<br>(\$ .32) | Basic<br>\$ .03 |
| Adjustment for "compensation cost"  | -                 | -                   | (.03)           |
| As restated   | (\$ .32)          | (\$ .31)            | \$ -            |

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