

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

OCEAN BIO CHEM INC
Form 10-K
March 29, 2007

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

FORM 10-K
(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, 2006

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
(Address of principal executive offices)

33314-4023
(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

Indicate by check mark whether the Registrant is a large accelerated filer,

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

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 01, 2007 as reported by the NASDAQ Capital Market on that date: \$6,683,420 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 and non-affiliates held 2,370,007 shares on March 1, 2007.

Number of shares of the Registrant's common stock outstanding as of March 01, 2007: 7,621,316 shares common stock, \$0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information from portions of our Definitive Proxy Statement, which will be filed within 120 days of December 31, 2006 covering our Annual Meeting of Shareholders which will be held on or about June 14, 2007.

Forward-looking Statements:

Certain statements contained in this Annual Report on Form 10-K, 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:

As more fully disclosed in our Form 8-K filed with the United States Securities and Exchange Commission on August 14, 2006, our Form 10-K was restated for the financial statements as of December 31, 2005 and 2004 and the years then ended. The substantive changes reflected were (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 had an impact on our previously reported cash flows. These matters are more fully

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

discussed in Note 12 - Restatements, to the Consolidated Financial Statements.

We have also included the aforementioned restated amounts in Item 6 - "Selected Financial Data" and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" for those years. 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 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 brand name as well as private label formulations of these and other products. The line also includes motor oils, 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.

Automotive: We manufacture a line of automotive products under the Star brite brand name including StarTron enzyme fuel treatment for both diesel and gas engines, 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 brand as well as under private labels for customers. We also produce a line of automotive polishes, cleaners and associated appearance items.

2

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.

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

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 produce the majority of our products at our manufacturing

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

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 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 into 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, 2006. Sales to our five largest customers for the year ended December 31, 2006 amounted to approximately 59% of consolidated gross revenues and outstanding balances due us at December 31, 2006 from our five largest customers aggregated approximately 57% 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: At December 31, 2006 our backlog included initial stocking orders for StarTron at Wal-Mart. Adjusting for the StarTron, Wal-Mart orders, we had no other significant backlog of orders as of December 31, 2006. We do not give customers the absolute right to return product. The majority of our products are non-seasonal and are sold throughout

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

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.

3

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 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,		
	2006	2005	2004
United States:	----	----	----
Northeast	\$ 4,240,000	\$ 3,585,000	\$ 4,455,000

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

Southeast	6,296,000	5,468,000	6,832,000
Central	6,158,000	5,655,000	7,015,000
West Coast	4,950,000	4,148,000	5,197,000
	-----	-----	-----
	21,644,000	18,856,000	23,499,000
 Canada (US Dollars)	 694,000	 850,000	 862,000
	-----	-----	-----
	\$22,338,000	\$19,706,000	\$24,361,000
	=====	=====	=====

4

Personnel: We employ approximately 23 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, 2006:

Full-time Location	Description	Employees
-----	-----	-----
Fort Lauderdale, Florida	Administrative	23
Fort Lauderdale, Florida	Manufacturing and distribution	8
Montgomery, Alabama	Manufacturing and distribution	59
		--
		90
		==

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 59%, 43% and 55% of consolidated gross revenues for the years ended December 31, 2006, 2005 and 2004; and 57% and 26% of consolidated accounts receivable at December 31, 2006 and 2005 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, 2006, 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.

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 former 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 which has been waived through

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

December 31, 2006. 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, 2006, 2005 and 2004 amounted to approximately \$100,500 each year.

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, 2006.

5

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 2006.

Part II

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

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 2006 and 2005 is presented below.

Market Range of Common Stock Bid:		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2006	High	\$1.21	\$1.85	\$1.75	\$4.03
	Low	\$.90	\$1.00	\$.85	\$.80
2005	High	\$3.11	\$2.04	\$1.63	\$1.35
	Low	\$1.07	\$1.45	\$1.14	\$.76

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, 2006. In addition, we believe that there are

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

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.

D. Securities authorized for issuance at December 31, 2006 under equity compensation plans:

	Number of securities to be issued upon exercise of outstanding options, warrants & rights	Weighted average exercise price of outstanding options, warrants & rights
Equity compensation plans		
approved by security holders:		
Plan stock options granted (1)	714,500	\$1.23
Non plan stock options granted (2)	231,000	.76
Warrants (3)	1,000,000	.88
	-----	-----
Total equity compensation plans approved and not approved by security holders	1,945,500 =====	\$1.02 =====

6

(1) Includes 400,000 options granted under the 2002 Qualified Incentive Stock Option Plan, 155,000 options under the 2002 Non-Qualified Stock Option Plan and 159,500 options under the 1994 Non-Qualified Stock Option Plan (this plan has expired and no further awards can be made under its provisions).

(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) On November 10, 2006, Mr. Dornau notified the Company that he was exercising his rights to convert a \$1.5 million loan made to the Company into 1.5 million shares of the Company's common stock. The transaction was approved unanimously by the members of our Board of Directors (with Mr. Dornau abstaining from the vote). In connection with this borrowing facility, 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.

Item 6. Selected Financial Data

As more fully disclosed in our Form 8-K filed with the United States Securities and Exchange Commission on August 14, 2006, our Form 10-K was

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

restated for the financial statements as of December 31, 2005 and 2004 and the years then ended. The substantive changes reflected were (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 had an impact on our previously reported cash flows. These matters are more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements.

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

	2006 -----	2005 ----- (Restated)	2004 ----- (Restated)	2003 -----
Operations:				
Gross sales	\$22,338,500	\$19,706,469	\$24,361,056	\$22,178,3
Net sales	\$20,427,132	\$17,651,905	\$21,657,083	\$19,997,7
Net income (loss)	\$ 392,051	(\$1,813,193)	\$ 17,222	\$ 345,0
Earnings (loss) per common share	\$.06	(\$.32)	\$ -	\$.
Balance Sheet:				
Working capital	\$ 3,920,398	\$ 2,713,123	\$ 3,464,574	\$ 2,869,1
Total assets	\$15,529,359	\$16,903,022	\$19,398,344	\$18,303,1
Long-term obligations	\$ 4,550,190	\$ 5,950,958	\$ 5,840,250	\$ 5,883,3
Total liabilities	\$ 8,593,826	\$12,240,427	\$13,448,849	\$12,899,1
Shareholders' equity	\$ 6,935,533	\$ 4,662,595	\$ 5,949,495	\$ 5,403,9
Cash dividends declared per share of common stock	\$ -	\$ -	\$ -	\$ -

7

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 disclosed in our Form 8-K filed with the United States Securities and Exchange Commission on August 14, 2006, our Form 10-K was restated for the financial statements as of December 31, 2005 and 2004 and the years then ended. The substantive changes reflected were (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 had an impact on our previously reported cash flows. These matters are more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements.

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

Overview:

We are a leading manufacturer and distributor of chemical formulations serving the appearance and functional categories of the marine, automotive, recreational vehicle and home care markets. We were founded in 1973 and have conducted operations within the aforementioned categories since then. During 1984, we changed our corporate name to Ocean Bio-Chem, Inc. (the parent company) from our former name, Star brite Corporation. Our operations were conducted as a privately owned company through March, 1981 when we completed our initial public offering of common stock.

Critical accounting policies and estimates:

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.

Collectibility of accounts receivable - Included in the consolidated balance sheets as of December 31, 2006 and 2005 are allowances for doubtful accounts aggregating approximately \$192,700 and \$131,000, respectively. Such amounts are based on management's estimates of the creditworthiness of its customers, current economic conditions and other historical information. Consolidated bad debt expense charged against operations for the years ended December 31, 2006, 2005 and 2004 aggregated approximately \$71,000, \$32,000 and \$66,000, respectively.

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 expenses - In any given year we introduce certain new products to our customers. In connection therewith, we produce new collateral materials 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 - At December 31, 2006, the Company had options outstanding under three stock-based compensation plans, which are described below. On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), share-based payment ("SFAS No.123R"), which requires the measurement and recognition of compensation cost for all

share-based payment awards made to employees and directors based on estimated fair values. Prior to the adoption of SFAS No. 123R, the Company accounted for its stock-based employee compensation related to stock options under the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25') and the disclosure alternative prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for

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

Stock-Based Compensation - Transition and Disclosure." Accordingly, The Company presents pro-forma information for the periods prior to the adoption of SFAS No. 123R and no employee compensation cost was recognized for the stock-based compensation plans other than the grant date intrinsic value, if any, for the options granted prior to January 1, 2006.

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 59%, 43% and 55% of consolidated gross revenues for the years ended December 31, 2006, 2005 and 2004; and 29% and 57% of consolidated accounts receivable at December 31, 2006 and 2005 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, 2006, 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 temporary differences included therein are attributable to differing methods of reflecting depreciation and stock based compensation 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, 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.

Performance Comparisons

The following chart compares our Annual Shareholder Return for the five years ended December 31, 2006 to the cumulative total shareholder return of (a) the NASDAQ market US stocks, and (b) an Industry Index, the NASDAQ Non-Financial

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

Stocks index. This graph will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or under the Securities Act of 1934, except to the extent that we specifically incorporate it by reference, and will not otherwise be deemed to be soliciting material or to be filed under such Acts.

We believe that no single peer index or peer company is totally comparable to our business. The peer indices used to compare total shareholder return include companies which supply to diverse markets. Some of our direct competitors are divisions that represent small portions of companies and are not included in the peer comparisons since information is not available to us to show those divisions separately from the parent.

9

A five year Performance Graph depicted by the following figures was included our Annual Report to Shareholders.

	2001	2002	2003	2004	2005	2006
	-----	-----	-----	-----	-----	-----
Ocean Bio-Chem, Inc.	100.00%	101.38%	117.24%	76.86%	70.34%	144.83%
NASDAQ US	100.00%	69.13%	103.36%	112.49%	114.88%	126.22%
NASDAQ Non financial entities	100.00%	65.33%	100.01%	107.86%	110.30%	120.97%

Liquidity and Capital Resources:

The amount of short term borrowings outstanding at December 31, 2006 was \$2.15 million dollars. This is a reduction of \$1.85 million from the December 31, 2005, balance of \$4.0 million dollars.

During the year ended December 31, 2006 the Company focused on programs to more effectively manage working capital. Accounts receivable at December 31, 2006 and 2005 aggregated approximately \$2.0 million dollars. However in 2006, net sales increased \$2.7 million or 15.7% without a comparative increase in accounts receivable.

In addition inventory levels decreased, from \$6.3 million dollars to \$5.7 million dollars, comparing December 31, 2006 and 2005, a decrease of approximately \$613,000 on a 15.7% increase in sales.

The Company also reduced its accounts payable at December 31, 2006 to \$944 thousand dollars from \$ 1.3 million dollars, a decrease of 25% or \$312 thousand dollars, in addition to reducing short term borrowings, discussed above.

As a result of the above, the Company improved its current ratio, to 2:1 at December 31, 2006, compared to 1.4:1 at December 31, 2005.

As of December 31, 2006 the Company was in compliance with its debt covenants.

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, 2007, bears interest at the 30 Day LIBOR plus 275 basis points (approximately 8.10% at December 31, 2006) 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, 2006, we were obligated under this arrangement in the amount of \$2,150,000.

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

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, 2007, we are required to maintain a stipulated

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

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, 2006 such bonds carried interest ranging between 3.08% and 4.24% 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, 2006 was approximately \$333,340 and the prime rate plus 2.5% per annum (or 10.75%). Such obligation matures on April 15, 2010.

11

On November 10, 2006, our President and CEO, Peter G. Dornau indicated that he was exercising his right to convert our indebtedness to him into common stock pursuant to the terms of the Subordinated Revolving Line of Credit he entered into with the Company. Our total long-term debt was reduced and shareholders' equity was increased by approximately \$1,241,000, respectively. Net income and related earnings per share for the year ended December 31, 2006 was not materially impacted by this event.

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 it is deemed appropriate.

As of December 31, 2006 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.

The cost of petroleum and related products, major components in many of our products, which were already in an increasing cost spiral, became even more unstable in 2006. The practical dynamics of our business do not afford us the same pricing flexibility with our customers, available to our suppliers. We cannot as immediately as our suppliers pass along the price increases to our national retailers and distributors. We effectuated a sales price increase which became effective during the fourth quarter of 2005. In addition, we have alerted customers who purchase products, which are heavily dependent on this petroleum

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

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.

Results of Operations:

Years ended December 31, 2006 and 2005:

For the year ended December 31, 2006, compared to December 31, 2005 both revenue and profits increased principally due to the factors enumerated below.

Net Sales increased to \$20.4 million from \$17.7 million, an increase of \$2.7 million or 15.7 %. This was primarily due to an increase in sales volume to a major customer - West Marine, partially offset by a decrease in sales to other customers. In certain instances the Company was able to pass along price increases to customers reflecting higher material costs incurred during the year. Net sales for the year also benefited from a reduction of sales allowance programs offered to customers. As a result, sales allowances decreased from 10.4% to 8.6% of gross sales.

12

Cost of Sales and Gross Margins - For the year, gross profit increased approximately \$2.7 million or 90 %, increasing from approximately \$3.0 million in 2005, to approximately \$5.7 million in 2006. Cost of sales decreased as a percentage of sales as a result of management actions taken during 2006. Specifically, management was more proactive in passing on cost increases to customers where possible resulting from higher raw material costs from suppliers. In addition, newly initiated manufacturing efficiencies and the increased volume produced at the Kinpak plant significantly contributed to the improved gross margins. Corporate management continues its oversight relating to both our procurement cost of raw materials as well as the overall management of our manufacturing facility. We believe that these management actions have had a major impact in the improvement of our gross margins in 2006.

Operating Expenses: For the year, operating expenses aggregated approximately \$5.3 million dollars, a decrease of \$51,000 from 2005. The primary decrease was in the selling and administrative expenses decreasing \$265,000. The decrease reflects a reduction in staff and other cost control programs implemented during the year. In addition advertising expenses decreased as a percent of sales from 6.3% of net sales in 2005 to 5.6% of net sales in 2006, reflecting management's decision to be more selective in approving advertising programs, where it was believed the Company would receive a higher benefit. These expenses were partially offset by higher interest costs of approximately \$181,000, increasing to \$681,000 from approximately \$499,000. The higher interest cost reflects the higher level of interest rates during the year compared to 2005.

Operating Profit. Operating profits increased to \$373,000 in 2006 from an operating loss of approximately \$2.4 million in 2005, an increase of \$2.8 million.

Net Income increased to approximately \$392,000 in 2006, from a net loss of approximately \$ 1.8 million in 2005.

Years ended December 31, 2005 and 2004:

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

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.

13

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 \$124,000 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.

Contractual obligations:

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

Total	2007	2008-2010
-------	------	-----------

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

	-----	-----	-----
Long-term debt obligations	\$ 7,226,412	\$ 2,709,960	\$ 1,613,344
Capital leases	59,839	26,100	33,739
Operating leases	211,104	104,507	106,597
Purchase obligations	-	-	-
Other	-	-	-
Total	\$ 7,497,355	\$ 2,840,567	\$ 1,753,680
	=====	=====	=====

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 3.2% and 4.3% during the year ended December 31, 2006.

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 disclosed in our Form 8-K filed with the United States Securities and Exchange Commission on August 14, 2006, our Form 10-K was restated for the financial statements as of December 31, 2005 and 2004 and the years then ended. The substantive changes reflected were (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 had an impact on our previously reported cash flows. These matters are more fully discussed in Note 12 - Restatements, to the Consolidated Financial Statements.

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.

14

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 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, 2006, 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

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

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, 2006.

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.

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.

15

NAME	OFFICER/DIRECTOR
Peter G. Dornau	President, Chief Executive Officer, and Director since 1973
Edward Anchel	Vice President-Finance, Chief Financial Officer since 1999 and Director since 1998
Jeffrey J. Tieger	Vice President-Advertising and Marketing, Secretary and Director from 1977 through January 25, 2007
William W. Dudman	Vice President-Operations since 2004
Gregor M. Dornau	Vice President-Sales since 2005

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

James M. Kolisch	Director since 1998
Laz L. Schneider	Director since 1998
John B. Turner	Director since 2000
Sonia B. Beard	Director since 2002

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 Secretary, and has served in such positions through January 25, 2007. Effective such date, he resigned these positions and as disclosed our Form 8-K, as filed with the United States Securities Commission on January 26, 2007, Mr. Tieger decided to retire and will no longer work for the Company on a full-time basis.

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. 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 Directors' Audit Committee.

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

Audit Committee

We have an Audit Committee, which consists of Sonia B. Beard, John B. Turner and James M. Kolisch as of December 31, 2006. 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.

Nominating Committee

We do not have a standing Nominating Committee of the Board of Directors. During the past five years we have had to conduct only one search for a new director and each member participated in that process. Accordingly, we have reached the decision that, given the size of our Company and Board, all members of the board will actively participate in prospective searches rather than having this function performed by a few members.

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 following table sets forth the amount of compensation for the fiscal years ended December 31, 2006, 2005, and 2004 for Peter G. Dornau and each of our executive officers, whose aggregate compensation exceeded \$100,000 on an annual basis (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual compensation			Long term Restricted Stock Awards
	Year	Salary	Bonus	
Peter G. Dornau, CEO	2006	\$105,249	\$ -	\$27,540 (1)
	2005	\$106,983	\$11,500	\$23,850 (2)
	2004	\$108,450	\$13,000	\$21,875 (3)
Edward Anchel, CFO	2006	\$ 96,384	\$ -	\$27,540 (1)
	2005	\$ 97,804	\$11,500	\$23,850 (2)
	2004	\$ 96,900	\$13,000	\$21,875 (3)

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

Jeffrey J. Tieger, VP	2006	\$ 62,691	\$ -	\$13,770 (1)
	2005	\$ 62,759	\$ 7,000	\$11,925 (2)
	2004	\$ 63,339	\$ 8,500	\$12,500 (3)
William Dudman, VP	2006	\$ 87,555	\$ -	\$13,770 (1)
	2005	\$ 88,777	\$ 8,000	\$11,925 (2)
Gregor M. Dornau, VP	2006	\$ 94,790	\$ -	\$13,770 (1)
	2005	\$ 96,725	\$ 8,000	\$11,925 (2)

17

Messrs. William Dudman and Gregor Dornau are only reported for the years ended December 31, 2006 and 2005 as they either did not reach the required reporting threshold or were not officers in 2004.

(1) Represents the aggregate value on the date of grant of restricted stock awards made during April, 2006 with respect to 30,000 shares of the Company's common stock awarded to each of Messrs. Peter Dornau and Edward Anchel, and 15,000 shares of the Company's common stock awarded to each of Messrs. Jeffrey J. Tieger, William W. Dudman and Gregor Dornau, based on the closing price of the shares on the award date.

(2) Represents the aggregate value on the date of grant of restricted stock awards made during April, 2005 with respect to 30,000 shares of the Company's common stock awarded to each of Messrs. Peter Dornau and Edward Anchel, and 15,000 shares of the Company's common stock awarded to each of Messrs. Jeffrey J. Tieger, William W. Dudman and Gregor Dornau, based on the closing price of the shares on the award date.

(3) Represents the aggregate value on the date of grant of restricted stock awards made during April, 2004 with respect to 35,000 shares of the Company's common stock awarded to each of Messrs. Peter Dornau and Edward Anchel, and 20,000 shares of the Company's common stock awarded to each of Mr. Jeffrey J. Tieger, based on the closing price of the shares on the award date.

Option Grants in Last Fiscal Year

On November 6, 2006 Incentive stock options were granted to our Named Executive Officers as well as an additional ten (10) other employees. The total awarded options aggregated 135,000 shares of which Messrs. Peter G. Dornau, Edward Anchel and Jeffrey J. Tieger each received options representing 15,000 shares and Messrs. William W. Dudman and Gregor M. Dornau received 22,000 and 21,000 options, respectively.

Aggregate Option Exercises in Fiscal 2006 and Option Values

The following table sets forth information as to the exercise of stock options during the fiscal year ended December 31, 2006, by our Named Executive Officers and the fiscal year-end values of unexercised options.

Name	Shares acquired by exercise	Value realized	Number of options/SAR's/ Warrants at end of fiscal year		Value SAR'S exercised
	-----	-----	exercisable	unexercisable	-----
Peter G. Dornau	27,000	\$19,250	1,155,500	155,500	\$1,2

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

Edward Anchel	27,500	22,025	50,000	50,000	
Jeffrey J. Tieger	27,500	22,025	40,000	6,000	1
William W. Dudman	-	-	50,000	24,000	
Gregor M. Dornau	22,000	17,620	36,000	49,000	
	-----	-----	-----	-----	
	104,500	\$80,920	1,393,000	223,000	\$1,5
	=====	=====	=====	=====	=====

(1) The value of unexercised "in-the-money" options at December 31, 2006 was calculated by determining the difference between \$2.10, the fair market value of the underlying Common Stock at December 31, 2006 and the option price. An option is "in-the-money" when the fair market value of the underlying Common Stock exceeds the exercise price of the option.

Stock Option Plans

We have three stock options plans: our 1994, and 2002 Incentive Stock Option Plans (the "1994 Plan", and "2002 Plan") and the 2002 Non-Qualified Stock Option Plan. All of our employees are eligible to be selected to participate in our 1994 and 2002 Qualified Plans and in our 2002 Non-Qualified Stock Option Plan. The Plans are administered by the Board of Directors, which selects individuals to be participants and determines the type and number of awards to be granted.

18

The option price for stock options granted under all Plans is stipulated to be not less than the fair market value of Common Stock on the date of grant and the term of each option is fixed by the Committee. Options become exercisable as determined by the Board of Directors.

Other Benefits

We provide our executive officers and employees with group health, hospitalization and life insurance plans. We also maintain a SAR/SEP Savings Plan and a 401(k) savings plan which are sponsored by two of our subsidiaries, Star brite Distributing, Inc. and Kinpak Inc., respectively. Both plans are non-contributory by us and are entirely funded by employee contributions.

Securities authorized for issuance at December 31, 2006 under equity compensation plans:

	Number of securities to be issued upon exercise of outstanding options, warrants & rights	Weighted average exercise price of outstanding options, warrants & rights
Equity compensation plans		
approved by security holders:		
Plan stock options granted (1)	714,500	\$1.23
Non plan stock options granted (2)	231,000	.76
Warrants (3)	1,000,000	.88
	-----	-----

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

Total equity compensation plans
approved and not approved by
security holders

1,945,500
=====

\$1.02
=====

(1) Includes 400,000 options granted under the 2002 Qualified Incentive Stock Option Plan, 155,000 options under the 2002 Non-Qualified Stock Option Plan and 159,500 options under the 1994 Qualified Incentive Stock Option Plan (this plan has expired and no further awards can be made under its provisions).

(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) Includes 1,000,000 warrants issued to Peter G. Dornau in connection with a \$1.5 million Subordinated Revolving Line of Credit he extended to the Company during 2005. Such warrants are exercisable 500,000 at \$1.03 per share and 500,000 exercisable at \$.88 per share. The exercise price equals the fair market value of the underlying security at date of issuance plus a 10% premium factor.

Restricted Stock Awards as Compensation

During April 2006 we issued 129,000 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 \$1.08 each. Shares were awarded as follows:

19

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	15,000 shares

	105,000 shares
Other employees, as a group (7 individuals)	24,000 shares

Total restricted shares awarded	129,000 shares
	=====

These restricted stock awards were approved by our shareholders at our Annual Meeting of Shareholders held on June 15, 2006.

Compensation of Outside (Independent) Directors:

Our outside directors, those other than officers of the Company, receive compensation only in the form of non-qualified common stock options. Such options are generally awarded for a ten year period, with an exercise price equal to the closing market price on the date of award. And are fully vested at time of grant. The following table reflects awards made during the three years ended December 31, 2006:

Director	Number of options granted during the year ended December 31,		
	2006	2005	2004
	-----	-----	-----

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

Sonia B. Beard	10,000 shares	-	10,000 shares
James M. Kolisch	10,000 shares	-	10,000 shares
Laz L. Schneider	10,000 shares	-	10,000 shares
John B. Turner	10,000 shares	-	10,000 shares
	-----	----	-----
	40,000 shares	-	40,000 shares
	=====	====	=====

Compensation Committee

We do not have a standing Compensation Committee of the Board of Directors. Our Company is controlled by one shareholder, our President and CEO, Peter G. Dornau. Mr. Dornau is actively involved in the recurring operations and has relied on setting compensation arrangements in consultation with other key executives of the Company. All decisions reached by this group are disclosed in various filings with the United States Securities and Exchange Commission and are submitted to our shareholders as a component of our annual Proxy materials. Accordingly, we have reached the decision that, given the size of our Company and Board, not to have a standing committee for this purpose

Certain additional disclosures required under this section are incorporated by reference to portions of our Definitive Proxy Statement, which will be filed within 120 days of December 31, 2006 covering our Annual Meeting of Shareholders which will be held on or about June 14, 2007.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information at December 31, 2006 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
-----	-----	-----
Common	Peter G. Dornau, President, CEO, Chairman Board of Directors Fort Lauderdale, FL 33317	5,533,368 (1)
Common	Edward Anchel, Vice President-Finance, CFO, Director Boynton Beach, FL 33437	323,451 (2)
Common	Jeffrey J. Tieger, former Vice President- Advertising, Secretary, Director Plantation, FL 33314	414,780 (3)
Common	William W. Dudman, Vice President-Operations	55,300 (4)
Common	Gregor M. Dornau, Vice President-Sales Fort Lauderdale, FL 33315	271,780 (5)
Common	James M. Kolisch, Director	

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

	Coral Gables, FL 33114	56,167 (6)
Common	Laz L. Schneider, Director Fort Lauderdale, FL 33305	40,000 (7)
Common	John B. Turner, Director Miami, FL 33186	69,463 (8)
Common	Sonia B. Beard, Director Merritt Island, FL 32952	30,000 (9)
Common	All directors and officers as a group 8 individuals	6,794,309 (10)

(1) Includes 1,155,500 shares that are issuable upon the exercise of stock options and/or warrants within 60 days of December 31, 2006.

(2) Includes 40,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

(3) Includes 155,500 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

(4) Includes 6,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

(5) Includes 36,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

(6) Includes 18,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

21

(7) Includes 40,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

(8) Includes 40,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

(9) Includes 30,000 shares that are issuable upon the exercise of stock options within 60 days of December 31, 2006.

(10) Includes 1,543,000 shares that are issuable upon the exercise of stock options and/or warrants within 60 days of December 31, 2006.

(11) Effective December 10, 2006 the Voting Proxy granted by Gregor M. Dornau to his father, Peter G. Dornau, our President and CEO was terminated. As of such date Gregor M. Dornau has sole voting power over the shares he owns.

Item 13. Certain Relationships and Related Transactions

During 2005 Mr. Dornau loaned the Company \$1.5 million in order to bolster working capital. In connection with the loan, 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 had the right, at his sole discretion, to convert such debt into a maximum of 1.5 million shares of our common stock at

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

the rate of \$1.00 per share. On November 10, 2006, Mr. Dornau notified the Company that he was exercising his right to convert the \$1.5 million loan into 1.5 million shares of our common stock. Such transaction was approved unanimously by the members of our Board of Directors with Mr. Peter Dornau abstaining from the vote.

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 former Vice President-Advertising, respectively. The lease 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, which has been waived through December 31, 2006. 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, 2006, 2005 and 2004 amounted to approximately \$100,500 each year.

We acquired the rights to the Star brite 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 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, 2006 and 2005, we had amounts due from affiliated companies, which are directly or beneficially owned by our president aggregating approximately \$231,200 and \$29,000, respectively.

Sales to such affiliates were sold at cost of material and labor plus an amount to cover manufacturing overhead costs. In addition, the affiliates are charged for their allocable share of administrative expenses of the Company. The sales to affiliates aggregated approximately \$622,300, \$826,900, and \$616,800 during the years ended December 31, 2006, 2005, and 2004, respectively; and allocable administrative fees aggregated \$350,000, \$300,000 and \$300,000, respectively for such periods.

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, 2006, 2005 and 2004 under such relationship.

22

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 our upcoming 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, 2006.

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 filed an amended Form 10-K/A for the year ended December 31, 2005 and 2004 including the following 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

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

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, 2006 and 2005.

(ii) Consolidated statements of operations for each of the three years ended December 31, 2006, 2005 and 2004.

(iii) Consolidated statements of shareholders' equity for each of the three years ended December 31, 2006, 2005 and 2004.

(iv) Consolidated statements of cash flows for each of the three years ended December 31, 2006, 2005 and 2004.

(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.

(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*.

23

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,

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

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*

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).

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 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.

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

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
of Directors and Chief
Executive Officer
March 29, 2007

By: /s/ Edward Anchel

EDWARD ANCHEL
Chief Financial Officer
March 29, 2007

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 ----- Peter G. Dornau	President, Chief Executive Officer and Director	March 29, 2007
/s/ Edward Anchel ----- Edward Anchel	Vice President Finance, Chief Financial Officer, Director	March 29, 2007
/s/ James M. Kolisch ----- James M. Kolisch	Director	March 29, 2007
/s/ Laz L. Schneider ----- Laz Schneider	Director	March 29, 2007
/s/ John B. Turner ----- John B. Turner	Director	March 29, 2007
/s/ Sonia B. Beard ----- Sonia B. Beard	Director	March 29, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, the

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

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.

25

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	Page

Reports of independent registered public accounting firms	F-2-F-3
Consolidated balance sheets	F-4
Consolidated statements of operations	F-5
Consolidated statements of shareholders' equity	F-6
Consolidated statements of cash flows	F-7
Notes to consolidated financial statements	F-8-F-17

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Ocean Bio-Chem, Inc. and Subsidiaries as of December 31, 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year 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 audit.

We conducted our audit 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 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 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 financial position of Ocean Bio-Chem, Inc. and Subsidiaries as of December 31, 2006 and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Berenfeld Spritzer Shechter & Sheer
Certified Public Accountants

March 21, 2007
Ft. Lauderdale, Florida

F-2

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 the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended December 31, 2005 and 2004. 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.

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 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,

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

Inc. and subsidiaries as of December 31, 2005 and the consolidated results of its operations and its consolidated cash flows for the years ended December 31, 2005 and 2004, 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

F-3

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2006 AND 2005

ASSETS

	2006	2005
	-----	-----
Current Assets:		(Restated)
Cash	\$ 71,080	\$ 20,000
Trade accounts receivable net of allowance for doubtful accounts of approximately \$192,700 and \$131,000, respectively	2,026,870	2,026,870
Inventories	5,647,933	6,260,000
Refundable income taxes		27,000
Prepaid expenses and other current assets	218,151	23,000
Total current assets	7,964,034	9,000,000
	-----	-----
Property, plant and equipment, net	6,800,176	7,310,000
	-----	-----
Other assets:		
Trademarks, trade names, and patents	330,439	330,439
Due from affiliated companies	231,200	231,200
Deposits and other assets	203,510	203,510
	-----	-----

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

Total other assets	765,149	58
	-----	-----
Total assets	\$15,529,359	\$16,90
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable trade	\$ 943,907	\$ 1,25
Note payable bank	2,150,000	4,00
Current portion of long-term debt	586,060	58
Accrued expenses payable	363,669	45
	-----	-----
Total current liabilities	4,043,636	6,28
	-----	-----
Long-term debt less current portion	4,550,190	5,95
	-----	-----
Commitments and contingencies	-	
Shareholders' equity:		
Common stock - \$.01 par value, 10,000,000 shares authorized, 7,621,316 and 5,849,316 shares issued and outstanding at December 31, 2006 and 2005, respectively	76,213	5
Additional paid-in capital	7,257,447	5,39
Foreign currency translation adjustment	(176,094)	(17
Retained earnings (deficit)	(213,838)	(60
	-----	-----
	6,943,728	4,670
Less treasury stock 7,519 shares, at cost	(8,195)	(
	-----	-----
Total shareholders' equity	6,935,533	4,66
	-----	-----
Total liabilities and shareholders' equity	\$15,529,359	\$16,90
	=====	=====

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

F-4

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

2006

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

Gross Sales	\$22,338,500	\$
Less discounts, returns and allowances	1,911,368	
Net sales	20,427,132	
Cost of goods sold	14,719,006	
Gross profit	5,708,126	
Operating expenses:		
Advertising and promotion	1,143,420	
Selling and administrative	3,510,715	
Interest	680,572	
Total operating expenses	5,334,707	
Operating profit (loss)	373,419	(
Interest and other income	18,638	
Income (loss) before provision (benefit) for income taxes	392,057	(
Provision (benefit) for income taxes	-	(
Net income (loss)	392,057	(
Other comprehensive income:		
Foreign currency translation, net of taxes	3,559	
Comprehensive income (loss)	\$ 395,616	(
Earnings (loss) per share:		
Basic	\$.06	(
Diluted	\$.05	(

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

F-5

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	Common stock Shares	Amount	Additional paid-in capital	Foreign currency adjustment	Retained earnings (deficit)
	-----	-----	-----	-----	-----
January 1, 2004	4,960,843	\$49,608	\$4,409,829	(\$ 237,323)	\$ 1,190,0

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

Net income					17,2
Issuances of common stock	456,970	4,570	312,917		
Compensation cost associated stock option modifications			178,332		
Foreign currency translation adjustment				32,459	
December 31, 2004 (Restated)	5,417,813	54,178	4,901,078	(204,864)	1,207,2
Net (loss)					(1,813,1
Issuances of common stock	431,503	4,315	185,869		
Compensation cost associated with warrants issued pursuant to subordinated revolving Note			310,898		
Foreign currency translation adjustment				25,211	
December 31, 2005 (Restated)	5,849,316	58,493	5,397,845	(179,653)	(605,8
Net income					392,0
Forgiveness of debt- affiliates			295,752		
P Dornau con- version of debt	1,500,000	15,000	1,225,920		
Bonus shares to employees	129,000	1,290	118,132		
Exercise of stock options	143,000	1,430	145,620		
Compensation cost associated stock option			74,178		
Foreign currency translation adjustment				3,559	
December 31, 2006	<u>7,621,316</u>	<u>\$76,213</u>	<u>\$7,257,447</u>	<u>(\$ 176,094)</u>	<u>(\$ 213,8</u>

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

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

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	2006

Cash flows from operating activities:	
Net income (loss)	\$ 392,057
Adjustments to reconcile net income (loss) to net cash provided (used) by operations:	
Depreciation and amortization	780,753
Equity based compensation	195,030
(Increase) decrease in accounts receivable - allowance for doubtful accounts	(61,408)
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	61,700
(Increase) decrease in inventory	612,879
(Increase) in recoverable income taxes	274,500
(Increase) decrease in prepaid expenses	44,242
(Decrease) increase in accounts payable and accrued taxes and other	(401,041)

Net cash provided (used) by operating activities	1,898,712

Cash flows used by investing activities:	
Purchases of property, plant and equipment	(270,289)
Utilization of (additions to) trust funds for equipment purchased, net	-

Net cash used by investing activities	(270,289)

Cash flows from financing activities:	
Borrowings line of credit	2,800,000
Principle payments - line of credit	(4,650,000)
(Increase) decrease in amounts due from affiliates	(202,178)
Increase (decrease) in long-term debt	135,904
Increase in notes payable - Peter Dornau and affiliates	-
Common stock transactions	145,620

Net cash provided (used) by financing activities	(1,765,446)

Increase (decrease) in cash prior to effect of exchange rate on cash	(137,022)

Effect of exchange rate on cash	3,559

Net increase (decrease) in cash	(133,463)

Cash at beginning of year	204,543

Cash at end of year	\$ 71,080
	=====
Supplemental information - disclosure of cash transactions:	
Cash paid for interest during year	\$ 680,572
	=====

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

Cash paid for income taxes during year	-	=====
Supplemental information - disclosure of non - cash transactions:		
Compensation cost associated with stock options and warrants	\$ 74,178	=====
Conversion of the Company's indebtedness to P. Dornau to equity	\$ 1,241,000	=====
Foregiveness of indebtedness to an affiliate	\$ 295,752	=====

The Company had no cash equivalents at December 31, 2006, 2005, and 2004.

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

F-7

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED STATEMENTS
 YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

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 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.

Collectibility of accounts receivable - Included in the consolidated balance sheets as of December 31, 2006 and 2005 are allowances for doubtful accounts aggregating approximately \$192,700 and \$131,000, respectively. Such amounts are based on management's estimates of the creditworthiness of its customers, current economic conditions and other historical information. Consolidated bad debt expense charged against operations for the years ended December 31, 2006, 2005 and 2004 aggregated approximately \$71,000, \$32,000 and \$66,000, respectively.

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, 2006 and 2005 are as follows:

	2006	2005
	----	----
Raw materials	\$3,423,030	\$3,235,086
Finished goods	2,224,903	3,025,727
	-----	-----
	\$5,647,933	\$6,260,813
	=====	=====

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

At December 31, 2006 and for the year then ended, \$20,000 is reflected in the accompanying consolidated financial statements as a reserve for slow moving inventory.

Prepaid expenses - During the years ended December 31, 2006, 2005 and 2004, the Company introduced certain new products to its customers. In connection therewith, the Company produced new product collateral materials to be distributed over a period of time of approximately one year. Accordingly the Company follows the policy of amortizing these costs over a one-year basis. At December 31, 2006 and 2005, the accumulated cost of collateral materials on hand and other deferred promotional costs that were or will be charged against the subsequent year's operations amounted to approximately \$15,400 and \$16,500, 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.

Stock based compensation - The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Shared Based Payment" ("SFAS No. 123R"), which requires the measurement and recognition of compensation cost for all share-based payment awards made to employees and directors based on estimated fair values. Prior to the adoption of SFAS No. 123R, The Company accounted for its stock-based employee compensation related to stock options under the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and the disclosure alternative prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." Accordingly, The Company presents pro-forma information for the periods prior to the adoption of SFAS No. 123R and no employee compensation cost was recognized for the stock-based compensation plans other than the grant date intrinsic value, if any, for the options granted prior to January 1, 2006.

Use of estimates - The preparation of financial statements in conformity with U.S. 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.

F-8

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 59%, 43% and 55% of consolidated gross revenues for the years ended December 31, 2006, 2005 and 2004; and 57% and 26% of consolidated accounts receivable at December 31, 2006 and 2005, 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.

Concentration of cash - At various times of the year and at December 31, 2006, 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

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

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 primary 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 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.

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, 2005 and 2004 have been reclassified to conform with the 2006 presentation.

F-9

Note 2 - Property, plant and equipment:

The Company's property, plant and equipment consisted of the following:

	Estimated Useful Life - Years	December 31,	
		2006	2005
Land		\$ 278,325	\$ 278,325
Building	30 years	4,389,155	4,390,894
Manufacturing and warehouse equipment	6-20 years	6,521,010	6,044,138
Office equipment	3-5 years	678,537	652,940
Construction in process		47,798	278,239
Leasehold improvement	10-15 years	145,505	145,505
		12,060,330	11,790,041
Less accumulated depreciation		5,260,154	4,479,401
Total property, plant and equipment, net		\$6,800,176	\$7,310,640

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

Depreciation expense for the years ended December 31, 2006, 2005 and 2004, which includes amortization of capitalized lease assets, amounted to approximately \$780,800, \$762,900 and \$735,100, respectively.

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,	2006	2005
	----	----
Land	\$ 278,325	\$ 278,325
Building	4,389,154	4,390,894
Manufacturing and warehouse equipment	6,564,504	5,747,411
Construction in process	23,391	274,843
	-----	-----
	11,255,374	10,691,473
Less accumulated depreciation	4,598,825	3,557,788
	-----	-----
Total	\$6,656,549	\$7,133,685
	=====	=====

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 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.

F-10

Note 3 - Note payable, bank:

During 2002, the Company secured a revolving line of credit, which provided a maximum of \$6 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 8.10% and 7.14% at December 31, 2006 and 2005 respectively) payable monthly and

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

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, 2006 the Company was in compliance with all financial covenants of the loan agreement. At December 31, 2005 the bank had waived the Company's non-compliance with certain of its financial covenants. This financing matures on May 31, 2007.

As of December 31, 2006 and 2005 the Company was obligated to its commercial lender under this arrangement in the amounts of \$2,150,000 and \$4,000,000 respectively. The average outstanding loan balances and interest incurred for the years ended December 31, 2006 and 2005 were approximately \$4,081,000, \$4,552,000 and \$321,500 and \$283,000, respectively.

Note 4 - Long-term debt:

Long-term debt at December 31, 2006 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, 2006, \$1,783,108 and \$2,960,000 were outstanding attributable to the 1997 and 2002 series, respectively. At December 31, 2006 and 2005, \$2,125,000 and \$3,080,000 were outstanding, respectively. During the year ended December 31, 2005 interest rates ranged between 1.8% and 3.3%. During the year ended December 31, 2006 interest rates ranged between 3.08% and 4.24%. Interest expense for 2006 and 2005 was approximately \$188,200 and \$156,600, respectively. Principal and accrued interest retiring the underlying bonds are payable quarterly through March, 2012 and July, 2017 for the 1997 and 2002 series, 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 2006 and 2005, the Company, through its subsidiary, Kinpak Inc., was obligated pursuant to various capital lease agreements covering equipment utilized in the Company's Alabama plant. Such obligations, aggregating approximately \$57,300 and \$56,300, at December 31, 2006, and 2005 respectively, have varying maturities through 2010 and carry interest rates ranging from 7% to 12% for both years. Interest expense for 2006 and 2005 was approximately \$5,200 and \$3,700 respectively.

On April 12, 2005 we entered into a financing obligation with Regions Bank whereby the bank 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, 2006 and 2005 were approximately \$ 333,300 and 433,300, respectively. The interest rate is calculated at prime plus 2.5% per annum, respectively or 10.75% at December 31, 2006. Such obligation matures on April 15, 2010. Interest incurred for 2006 and 2005 was approximately \$29,100 and \$22,000, respectively.

In 2005 Mr. Dornau loaned of the Company \$1.5 million in order to bolster working capital. In connection with such loan, the Company issued warrants to Mr. Dornau to purchase a maximum of 1 million shares of our common stock. Such warrants were 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 had 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. On November 10, 2006, Mr. Dornau

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

F-11

notified the Company that he was exercising his rights to convert the \$1.5 million loan made to the Company into 1.5 million shares. Such transaction was approved unanimously by the members of our Board of Directors (with Mr. Dornau abstaining from the vote).

The composition of these obligations at December 31, 2006 and 2005 were as follows:

	Current Portion		Long
	2006	2005	2006
		(Restated)	
Industrial Development Bonds	\$ 460,000	\$ 460,000	\$4,283,107
Notes payable	99,996	99,996	233,344
Capitalized equipment leases	26,064	20,856	33,739
Subordinated note payable-P. Dornau	-	-	-
	-----	-----	-----
	586,060	580,852	4,550,190
Less imputed interest	-	-	-
	-----	-----	-----
	\$ 586,060	\$ 580,852	\$4,550,190
	=====	=====	=====

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

Year ending December 31,	
2007	\$ 586,060
2008	579,490
2009	572,051
2010	495,540
2011	460,000
Thereafter	2,443,109

Total	\$5,136,250
	=====

Note 5 - Income taxes:

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

	2006	2005	2004
		(Restated)	(Restated)
Income tax provision (benefit):			
Federal - current	\$ -	(\$274,500)	\$ 47,600
- deferred	-	(260,000)	54,400
State	-	-	5,000
	-----	-----	-----
Total	\$ -	(\$ 534,500)	\$107,000
	=====	=====	=====

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

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

	2006	2005	2004
	-----	-----	-----
Computed at statutory rate	34.0%	(34.0%)	34.0%
State tax, net of federal benefit			5.5%
Not being able to utilize entire tax benefit as a carry-back*	(34.0)	11.2%	-
Other, principally deferred income taxes attributable to depreciation	-		46.7
	-----	-----	-----
Effective tax rate	-	(22.8%)	86.2%
	=====	=====	=====

* The reduction from the statutory rate for the year ended December 31, 2006 represents the Income Tax effect of operating loss carryovers to offset the current year's Taxable Income.

At December 31, 2006 the Company had available tax loss carryovers available as offsets against future taxable income aggregating approximately \$265,800 and \$1,923,600 for federal and Florida purposes, respectively expiring in 2025. If fully utilizable, such carryovers would result in a deferred tax asset of approximately \$90,400 and \$264,100 as of December 31, 2006 and 2005, respectively. There is no assurance that the Company will ever avail itself of all or a portion of such carryovers, accordingly, a valuation allowance has been established against this deferred asset.

F-12

The Company's deferred tax asset and liability accounts consisted of the following at December 31:

	2006	2005
	-----	-----
Deferred tax asset	\$ 90,400	\$ 264,100
Less valuation allowance	(90,400)	(264,100)
Deferred Tax Liability	-	-
	-----	-----
Total	\$ -	\$ -
	=====	=====

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

Note 6 - Related party transactions:

At December 31, 2006 and 2005, 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 \$231,200 and \$29,000, respectively. Such amounts result from sales to the affiliates, allocations of management fees incurred by the Company on the affiliates' behalf, and funds advanced to or from the Company.

Sales to such affiliates were sold at cost of material and labor plus an amount to cover manufacturing overhead costs. In addition, the affiliates are

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

charged for their allocable share of administrative expenses of the Company. The sales to affiliates aggregated approximately \$622,300, \$826,900, and \$616,800 during the years ended December 31, 2006, 2005, and 2004, respectively; and allocable administrative fees aggregated \$350,000, \$300,000 and \$300,000, respectively for such periods.

Such transactions were made in the ordinary course of business but were not made on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other customers. Management believes that the sales transactions did not involve more than normal credit risk or present other unfavorable features.

On March 25, 1999, the Company entered into a loan arrangement with an entity owned 50% each by our President and former Vice President - Advertising, Messrs. Peter G. Dornau and Jeffrey J. Tieger, respectively whereby we borrowed \$400,000 to be repaid in monthly installments of \$3,357 plus prevailing interest at prime plus 1%. During March 2006 when the principal balance outstanding amounted to \$295,752, the Company received notification from the shareholders of said entity that they were forgiving this obligation and, accordingly, the Company had no further obligation associated with this debt. The Company recognized additional paid-in capital attributable to this transaction in the amount of \$295,752.

Note 7 - Commitments

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, which has been waived through December 31, 2006. 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, 2006, 2005, and 2004 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 \$306,000 and \$336,800 at December 31, 2006 and 2005, respectively, is primarily secured by the real estate leased to the Company.

F-13

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

Year ending December 31,		
	2007	\$ 106,597
	2008	108,729
	Thereafter	-

	Total	\$ 215,326
		=====

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.

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

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 (this plan has expired and no further awards can be made under its provisions). 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 three stock option plans as of December 31, 2006, as adjusted for the Company's stock dividend distributions of 2000 and 2002.

Plan	Date granted	Options outstanding	Exercisable options	Exercise price	Exp
1994	10/26/04	159,500	63,800	\$1.050	10/
2002	10/22/02	125,000	100,000	\$1.260	10/
2002	03/02/04	140,000	56,000	\$1.620	03/
2002	11/09/06	135,000	-	\$0.930	11/
2002 NQ	10/22/02	35,000	35,000	\$1.260	10/
2002 NQ	06/20/03	40,000	40,000	\$1.030	06/
2002 NQ	05/25/04	40,000	40,000	\$1.460	05/
2002 NQ	04/03/06	40,000	-	\$1.090	04/
		-----	-----	-----	
		714,500	478,000		
		=====	=====		

In addition to the foregoing, 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.

Prior to January 1, 2006, the Company accounted for its stock based compensation plans as permitted by SFAS No. 123 (R), using the intrinsic value method prescribed by APB No. 25 and made pro-forma disclosures required by SFAS 148 for the years ended December 31, 2005 and 2004. All options granted under the Company's various stock option plans had exercise prices equal to the fair market value of the underlying common stock on the dates of grants. 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 applied. The following table is presented pursuant to such requirement.

F-14

Year ended December 31,	
2005	2004
-----	-----
(Restated)	(Restated)

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

Net (loss) income	As reported	(\$1,813,193)	\$ 17,222
	Pro forma	(\$1,858,710)	(\$18,604)
Earnings (loss) per share	As reported	(\$.32)	\$ -
	Pro forma	(\$.32)	\$ -

A summary of the Company's stock options as of December 31, 2006, 2005 and 2004, and changes during the years ending on these dates, is presented below:

	2006		2005	
	Optioned Shares	Weighted average exercise price	Optioned shares	Weighted average exercise price
Options outstanding at beginning of year	964,500	\$1.12	1,183,000	\$1.12
Granted	175,000			-
Expired	(51,000)		(59,000)	
Exercised	(143,500)		(159,500)	
Options outstanding at end of year	945,500	\$1.11	964,500	\$1.12

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. Compensation cost recognized during the year ended December 31, 2006 attributable to stock options amounted to \$74,178.

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following assumptions for the years 2006, 2005 and 2004; risk free rate ranging from 4.35% to 4.84%, no dividend yield for all years, expected life from five years to ten years and volatility of approximately 35.2% to 48.8%.

As of December 31, 2006 there was approximately \$156,200 of unrecognized compensation cost related to un-vested share based compensation arrangements. That cost will be charged against operations as the respective options vest through December, 2012.

Note 9 - Major customers:

The Company has one major customer, West Marine, Inc., with sales in excess of 10% of consolidated gross revenue for the years ended December 31, 2006, 2005, and 2004. Sales to this customer represented approximately 43%, 26% and 39% of consolidated gross revenues for such periods, respectively.

The Company's top five customers represented approximately 59%, 43%, and 55% of consolidated revenues and 57% and 26% of consolidated trade receivables for the years ended December 31, 2006, 2005, and 2004, 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.

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

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

F-15

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, 2006, 2005, and 2004:

	2006	2005	2004
	-----	-----	-----
Basic	6,207,983	5,700,774	5,356,316
Diluted	7,214,326	5,700,774	5,500,113

In 2005, the Company's potentially issuable shares of common stock pursuant to outstanding stock options and warrants are excluded from the Company's diluted computation, as their effect would be anti-dilutive.

Note 11- Shareholders' equity:

During the years ended December 31, 2006, 2005 and 2004 the Company awarded 129,000, 122,000 and 140,500 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 \$119,400, \$97,300 and \$87,800 for each period, respectively.

During December 2006 and August 2005, certain employees of the Company exercised stock options scheduled to expire during the respective current year covering 143,500 and 159,500 shares of its common stock respectively. The aggregate exercise price of such transactions amounted to approximately \$147,000 and \$92,900 and is reflected in the accompanying financial statements as additional paid-in capital.

On March 25, 1999, the Company entered into a loan arrangement with an entity owned 50% each by our President and former Vice President - Advertising, Messrs. Peter G. Dornau and Jeffrey J. Tieger, respectively whereby we borrowed \$400,000 to be repaid in monthly installments of \$3,357 plus prevailing interest at prime plus 1%. During March 2006 when the principal balance outstanding amounted to \$295,752, the Company received notification from the shareholders of said entity that they were forgiving this obligation and, accordingly, the Company had no further obligation associated with this debt. The Company recognized additional paid-in capital attributable to this transaction in the amount of \$295,752.

On November 10, 2006, Mr. Dornau notified the Company that he was exercising his rights to convert the \$1.5 million loan made to the Company into 1.5 million shares of the Company's common stock. Such transaction was approved unanimously by the members of our Board of Directors (with Mr. Dornau abstaining from the vote). Mr. Dornau loaned the Company \$1.5 million in order to bolster working capital. In connection with such loan, we issued warrants to Mr. Dornau to purchase a maximum of 1 million shares of our common stock. Such warrants were exercisable 500,000 shares at \$1.13 and 500,000 shares at \$.863. The

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

exercise prices were determined by the closing bid of our stock plus ten (10) percent on each date of grant. The Company recognized additional paid-in capital attributable to this transaction in the amount of \$1,240,940.

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 11 - Shareholders' Equity. 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 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.

F-16

Year 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 2005	2004
	-----	-----
As originally reported	\$6,261,856	\$5,580,250
Reclassification of imputed interest associated		

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

with warrants issued pursuant to Subordinated Revolving Note Payable	(310,898)	-
Recognition of compensation cost associated with stock options granted to Messrs. Dornau and Tieger as to which certain terms were modified	-	-
As restated	\$5,950,958	\$5,580,250
	=====	=====

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

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

F-17

Note -13 Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No.159 permits entities to choose to measure eligible financial instruments at fair value. The unrealized gains and losses on items for which the fair value option has been elected should be reported in earnings. The decision to elect the fair value options is determined on an instrument-by-instrument basis, it should be applied to an entire instrument, and it is irrevocable. Assets and liabilities measured at fair value pursuant to the fair value option should be reported separately in the balance sheet from those instruments measured using another measurement attribute. SFAS No. 159 is effective as of the beginning of the first fiscal

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

year that begins after November 15, 2007. The Company is currently analyzing the potential impact of adoption of SFAS No.159 to its consolidated financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides guidance on the consideration of effects of the prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The SEC staff believes registrants must quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 was effective for the first annual period ending after November 15, 2006 with early application encouraged. The Company adopted the provisions of SAB 108 on December 31, 2006 and the impact of adoption was not material to its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not anticipate adoption of this standard will have a material impact on its consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of SFAS 109, ("FIN 48"). FIN 48 provides interpretive guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is reviewing the impact of adopting FIN No. 48 but does not anticipate that the impact will be material to its consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, which will be effective for fiscal years that begin after December 15, 2006. This statement amends SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125, or SFAS 140, regarding (1) the circumstances under which a servicing asset or servicing liability must be recognized, (2) the initial and subsequent measurement of recognized servicing assets and liabilities, and (3) information required to be disclosed relating to servicing assets and liabilities. The Company does not anticipate adoption of this standard will have a material impact on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, or SFAS 155, which will be effective for fiscal years that begin after December 15, 2006. This statement amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative financial instrument. The Company does not anticipate adoption of this standard will have a material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which was adopted effective January 1, 2006. This statement addresses the retrospective application of such changes and corrections and will be followed if and when necessary. Adoption of this standard did not have a

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

material impact on the Company's consolidated financial statements.

F-18