

OCEAN BIO-CHEM INCORPORATED

ACHIEVING OUR GOALS IN 2010

2009 ANNUAL REPORT



OVERVIEW

In 2009 the Company achieved record revenues as we continued our strategic plan of gaining additional market share in the marine sector as well as diversifying into new markets. An important part of this initiative is the introduction of new and improved products. This past year saw us presenting a number of innovative and significantly improved products that are being well-received by our core customer base and by new customers.



One example is the new No Damp® "Ultra Dome" dehumidifier product. Larger in size than previous models and featuring a unique rounded dome, this item is helping us to maintain our position as a leading manufacturer and distributor of marine chemicals in the US and worldwide.

We have also achieved great success with a new "Small Engine Formula" of Star Tron® for both gasoline and diesel applications. This new version is playing a large role in the expansion of this stellar performer into new sectors.

We will continue this process in 2010 and beyond, with a significant number of exciting, new items currently undergoing evaluation.



PRESIDENT'S LETTER

ACHIEVING OUR GOALS IN 2010

Dear Shareholders,

I am happy to report that 2009 has ended on a positive note for the Company, with the outlook even better for 2010. While the overall US economy has not yet seen widespread signs of a recovery, in 2009 the Company had record sales. We enjoyed revenue growth of approximately \$3.7 million or 18%. We reported an all-time record net income of \$1.05 million, compared to \$154,000 in 2009.

These impressive earnings occurred despite two unusual and unforeseen expense items. The first was the legal fees incurred over false and deceptive advertising attacking Star Tron® fuel additive. This matter was settled during the first quarter of 2010. The second was the accounts receivable write-off caused by the bankruptcy of Boater's World, one of the Company's largest customers. The Company ended the year with a strong balance sheet. Total liabilities decreased by more than \$1.9 million. The largest decrease was a reduction of debt from \$2.8 million as of December 31, 2008, to \$250,000 as of December 31, 2009. This decrease was partially offset by an increase in accounts payable and accrued expenses.

The Company continues to be a leading player in the marine market, and as we continue to diversify our efforts we are becoming a dominant brand in other sectors as well. In 2009 we established new relationships with multiple national and regional retailers and distributors. These efforts have already begun to pay dividends and will continue to do so for years to come. While Star Tron® has allowed us to expand into new markets, we will maximize these opportunities by aggressively marketing other products within the firm's line, as well as developing new products in order to gain market share and thus bolster profitability. As one example, the Company has signed a Letter of Intent to create a joint venture for the purpose of manufacturing and distributing a unique, patented delivery system for a chlorine dioxide-based product. This EPA-registered product actually kills mold, mildew, bacteria and viruses. We are very excited by the opportunity this product represents. We fully expect it to generate the same level of excitement and consumer acceptance we have been seeing with our Star Tron® fuel additive.

In 2009, Star Tron® sales continued to grow, driven in part by the continued expansion of ethanol fuels across the US. Consumer concern over fuel quality allowed Star Tron® to gain more market share from traditional fuel additive products. Awareness of the problems caused by ethanol fuels has spread across the country, expanding well beyond our core marine market. As a result, Star Tron® - and Star brite® - brand awareness continued to grow, bolstered by expanded advertising campaigns in all media, to include national and regional magazines, TV, radio and newspapers.

I would like to acknowledge the dedication and efforts of all of our employees. I am also grateful for the continued support of our customers, vendors and shareholders. We look forward to 2010 with the goal of exceeding your expectations.



Peter G. Dornau
President and Chief Executive Officer

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.

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 controlled subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation.

COLLECTABILITY OF ACCOUNTS RECEIVABLE – Trade receivables are recognized on our accompanying consolidated balance sheets at fair value. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and customers' credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience, specific customer collection issues that we have identified and reviews of agings of trade receivables based on contractual terms. We generally do not require collateral on trade accounts receivable. No single customer's receivable balance is considered to be large enough to pose a significant credit risk to us.

REVENUE RECOGNITION – Revenue from product sales is recognized when persuasive evidence of a contract exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectability of the related receivable is probable. For customers for whom the Company manages the inventory, at their location, revenue is recognized when the products are sold to a third party.

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

PREPAID ADVERTISING AND CATALOG COSTS – The Company capitalizes the direct cost of producing and distributing its catalogs. Capitalized catalog costs are amortized, once a catalog is distributed, over the expected net sales period, which is generally from one month to 12 months. The Company follows the SOP 93-7, Reporting on Advertising Costs. Advertising costs, which are included in advertising and promotion ("A&P") expense, are expensed as incurred and were \$1.7 million and \$1.3 million in 2009 and 2008 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 – At December 31, 2009, the Company had options outstanding under four stock-based compensation plans and two non-qualified plans, which are described below. The Company follows, Share-Based Payment, now codified within FASC 718-20-10 Compensation - Stock Compensation, which establishes standards surrounding the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Under FASC 718-20-10, we recognize an expense for the fair value of our outstanding stock options as they vest, whether held by employees or others.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 110. This guidance allows companies, in certain circumstances, to utilize a simplified method in determining the expected term of stock option grants when calculating the compensation expense to be recorded under FASC 718-20-10 Compensation - Stock Compensation. The simplified method can be used after December 31, 2007 only if a company's stock options exercise experience does not provide a reasonable basis upon which to estimate the expected option term. In 2008 and 2009, we utilized the simplified method to determine the expected option term, based upon the vesting and original contractual terms of the option.

CONCENTRATION OF CASH – At various times of the year and at December 31, 2009, 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 – In April 2009, the FASB issued FSP 107-1 and Accounting Principles Board 28-1, Interim Disclosures about Fair Value of Financial Instruments, now codified within FASC 825, Financial Instruments ("FASC 825"). FASC 825 requires disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. FASC 825 is effective for interim periods ending after June 15, 2009. The adoption of FASC 825 did not have a material impact on our consolidated results of operations or financial position. Refer to Note 1, Financial Statement Policies, of this Form 10-K for the enhanced disclosures required by the adoption of FASC 825.

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, due from factors, accounts payable, customer credits on account, accrued expenses and loans payable to related parties approximates the fair value due to the relatively short period to maturity for these instruments.

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

INCOME TAXES – We file consolidated federal and state income tax returns. In the accompanying consolidated financial statements we apply FASC 740. 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, Goodwill and Other Intangible Assets (now codified in FASC 350, Intangibles - Goodwill and Other), we have determined that these intangible assets have indefinite lives and therefore, we no longer recognize amortization expense. In addition, we own other 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 such patents.

FOREIGN CURRENCY – Translation adjustments result from translating foreign subsidiaries' financial statements into U.S. dollars. The Company's Canadian functional currency is the Canadian dollar. Balance sheet accounts are translated at exchange rates in effect at the balance sheet date. Income statement accounts are translated at average exchange rates during the year. Resulting translation adjustments are included as a component of Other Comprehensive Income in the Consolidated Statements of Stockholders' Equity. Gains (losses) from foreign currency transactions included in SG&A expense.

PERFORMANCE COMPARISONS

N/A

LIQUIDITY AND CAPITAL RESOURCES

Cash was approximately \$495 thousand dollars at December 31, 2009 compared to approximately \$527 thousand dollars at December 31, 2008. The amount of short-term borrowings outstanding at December 31, 2009 was approximately \$250 thousand dollars. This is a decrease of \$2.5 million dollars from the December 31, 2008 balance of approximately \$2.8 million dollars. The positive cash flow from operating activities at December 31, 2009 of \$2.8 million dollars compared to approximately \$706 thousand at December 31, 2008.

During the year ended December 31, 2009 the Company continued to focus on programs to effectively manage trade accounts receivable. In 2009, accounts receivable remained close to their prior year level based on an increase in net sales of 17.8%. Net trade accounts receivable aggregated approximately \$2.1 million dollars at December 31, 2009 and \$2.0 million at 2008. The Company increased its collection efforts to limit its financial exposure in accounts receivable.

Inventory were approximately \$6.7 million dollars and \$6.6 million dollars, comparing December 31, 2009 and 2008, an increase of approximately \$100 thousand dollars or 1.5%. With a net sales increase of 17.8% and inventory remaining relatively constant, it reflects management's efforts to manage inventories.

Accounts payable at December 31, 2009 increased to approximately \$1.7 million dollars from \$0.9 million dollars an increase of \$0.8 million dollars. The increase primarily reflects year end purchasing of inventory.

The Company has an asset based line of credit, aggregating \$6 million with Regions Bank. In 2007, the line carried interest based on the 30 Day LIBOR rate plus 275 basis points (approximately 6.0% at December 31, 2007) payable monthly, and was collateralized by the Company's inventory, trade receivables, and intangible assets. This financing matured on May 31, 2008, and was renewed for three years. Such line matures May 31, 2011, bears interest at the 30 Day LIBOR plus 250 basis points (approximately 2.7% at December 31, 2009) and is secured by our trade receivables, inventory and intangible assets. We are required to maintain a minimum working capital of \$1.5 million and meet certain other financial covenants during the term of the agreement. At December 31, 2009 and 2008 the Company was in compliance with its' debt covenants. As of December 31, 2009 and 2008 we were obligated under this arrangement in the amount of \$250 thousand dollars and \$2.8 million dollars, respectively.

The Company signed a Letter of Intent to form a joint venture with Odor Star Technology LLC. on January 10, 2010. The Company believes it currently has adequate working capital to meet the financial requirements of the joint venture. However, at this time we cannot quantify unforeseen investment requirements.

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 (IDB's) 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. Renewable annually, we are required to maintain a stipulated level of working capital, a designated maximum debt to tangible ratio, and a required debt service coverage ratio. Such letters of credit are secured by a first priority mortgage on the underlying Alabama facility and equipment.

In the first quarter of 2009, both IDB's were tendered. As of December 31, 2009, the bonds have not been remarketed (Reference subsequent events for update). The bonds interest rate is the prime rate. Principal and interest are payable quarterly. We believe current operations are sufficient to meet these obligations. The bonds maturity dates are March 2012 and July 2017 for the 1997 and 2002 series bonds. In September and October 2008 both bond issues were tendered due to the volatility of the credit markets, remarketed and again tendered in February 2009.

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.

In the year ended December 31, 2009 the Company recorded approximately \$3,100 in foreign currency translation adjustments (decreasing shareholders equity by \$3,100) as a result of the weakening of the Canadian dollar in relationship to the US dollar, in the conversion of the Company's Canadian subsidiary balance sheet to US dollars.

During the past few years, we have introduced various new products to our customers. At times this has required us to carry greater amounts of overall inventory and has resulted in lower inventory turnover rates. The effects of such inventory turnover have not been material to our overall operations. We believe that all required capital to maintain such increases can continue to be provided by operations and current financing arrangements.

Many of the raw materials that we use in the manufacturing process are petroleum chemical based and commodity chemicals that are subject to fluctuating prices. The 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 2008. 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.

As of December 31, 2009 and through the date hereof, we did not and do not have any material commitments for capital expenditures, nor do we have any other present commitment that is likely to result in our liquidity increasing or decreasing in any material way. In addition, except for our need for additional capital to finance inventory purchases, we know of no trend, additional demand, event, or uncertainty that will result in, or that is reasonably likely to result in, our liquidity increasing or decreasing in any material way.

RESULTS OF OPERATIONS

NET SALES increased to \$24.6 million dollars from \$20.9 million dollars, an increase of \$3.7 million dollars or 17.8%. The \$3.7 million dollar increase is a result of increased sales to existing and new customers in both our core marine market as well as new markets. The Company increased its sales of winterizing products, Star Tron® as well as other marine products.

COST OF SALES AND GROSS MARGINS – For the year, gross profit increased approximately \$1.9 million dollars or 31.2%, from approximately \$6.0 million dollars in 2008, to approximately \$7.9 million dollars in 2009. Gross margin percentages also increased from approximately 29% to 32%, a change of approximately 3%. This was a result of improved plant utilization and improved sales mix of higher margin products.

OPERATING EXPENSES – For the year, total operating expenses aggregated approximately \$5.9 million dollars, an increase of approximately \$559 thousand dollars from 2008. As a percentage of net sales, operating expenses decreased from 25.4% to 23.9%. This is a result of higher sales.

ADVERTISING & PROMOTION increased \$330 thousand dollars. Reduced cost of advertising space in trade magazines allowed the Company to continue to build brand and product awareness by advertising in a greater number of targeted publications. Marketing has pursued increased initiatives to promote and advertise Star Tron/Star brite products in TV, radio and newspapers as well as target advertising in industry magazines.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES increased \$229 thousand dollars. This increase is primarily variable selling expense including sales commissions, show expense and travel expenses. In addition, the Company has incurred unusually high legal expenses as a result of the lawsuit the Company brought against Kop-Coat Inc.

INTEREST EXPENSE decreased approximately \$51 thousand dollars to \$206 thousand in 2009, compared to \$257 thousand in 2008. This principally resulted from lower outstanding loan balances throughout the year in part offset by higher interest rates on the tendered industrial revenue bonds.

OPERATING PROFIT – Operating profits increased to approximately \$1.8 million dollars in 2009 from an operating profit of approximately \$423 thousand in 2008, an increase of \$1.4 million dollars or 322%.

INCOME TAXES – The Company had a tax expense of \$755 thousand dollars in 2009 or 41.8% of pretax income.

NET INCOME increased to approximately \$1 million dollars in 2009, from a net income of approximately \$154 thousand in 2008 an increase of \$900 thousand dollars.

CONTRACTUAL OBLIGATIONS

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

	<u>TOTAL</u>	<u>2010</u>	<u>2011-2014</u>	<u>2015 AND THEREAFTER</u>
Long-Term Debt Obligations	\$3,398,352	\$493,352	\$1,785,000	\$1,120,000
Line of Credit	250,000	250,000	—	—
Capital Leases	51,907	19,701	32,206	—
Other	913,232	101,828	428,089	383,315
TOTAL	<u>\$4,613,491</u>	<u>\$864,881</u>	<u>\$2,245,295</u>	<u>\$1,503,315</u>

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

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 sheets of Ocean-Bio-Chem, Inc. and Subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amount and disclosures in the consolidated financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ocean-Bio-Chem, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Kramer Weisman and Associates, LLP
Certified Public Accountants

March 25, 2010
Davie, Florida

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS	<u>DEC. 31, 2009</u>	<u>DEC. 31, 2008</u>
CURRENT ASSETS		
Cash	\$494,973	\$527,056
Trade accounts receivable net of allowance for doubtful accounts of approximately \$61,700 and \$117,600 at December 31, 2009 and December 31, 2008, respectively	2,144,265	1,966,223
Inventories, net	6,663,246	6,564,909
Prepaid expenses and other current assets	<u>504,384</u>	<u>365,982</u>
TOTAL CURRENT ASSETS	9,806,868	9,424,170
Property, plant and equipment, net	5,464,356	5,780,395
OTHER ASSETS		
Trademarks, trade names, and patents, net	330,439	330,439
Due from affiliated companies, net	237,172	910,553
Deposits and other assets	<u>153,224</u>	<u>184,628</u>
TOTAL OTHER ASSETS	<u>720,835</u>	<u>1,425,620</u>
TOTAL ASSETS	<u>\$15,992,059</u>	<u>\$16,630,185</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	\$1,741,309	\$894,193
Line of Credit – bank	250,000	2,800,000
Current portion of long-term debt	513,053	584,537
Accrued expenses payable	<u>1,191,987</u>	<u>883,354</u>
TOTAL CURRENT LIABILITIES	<u>\$3,696,349</u>	<u>\$5,162,084</u>
Long-term debt, less current portion	2,937,206	3,434,491
Commitments and contingencies	—	—
SHAREHOLDERS' EQUITY		
Common stock - \$.01 par value, 10,000,000 shares authorized: 8,053,816 and 7,886,816 shares issued and outstanding at December 31, 2009 and 2008, respectively	80,538	78,868
Additional paid-in capital	8,194,917	7,928,269
Less Cost of common stock in treasury, 351,503 shares at December 31, 2009 and 2008, respectively	(288,013)	(288,013)
Foreign currency translation adjustment	(277,025)	(280,123)
Retained earnings	<u>1,648,087</u>	<u>594,609</u>
TOTAL SHAREHOLDERS' EQUITY	<u>9,358,504</u>	<u>8,033,610</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$15,992,059</u>	<u>\$16,630,185</u>

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

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Gross Sales	\$26,281,520	\$22,898,989
Less: discounts, returns and allowances	<u>1,648,630</u>	<u>1,980,922</u>
NET SALES	24,632,890	20,918,067
Cost of goods sold	<u>16,763,401</u>	<u>14,918,333</u>
GROSS PROFIT	7,869,489	5,999,734
OPERATING EXPENSES		
Advertising and promotion	1,661,948	1,331,568
Selling and administrative	4,216,824	3,988,028
Interest expense	<u>205,626</u>	<u>257,020</u>
Total operating expenses	6,084,398	5,576,616
OPERATING INCOME	1,785,091	423,118
Other income	<u>23,705</u>	<u>21,932</u>
INCOME BEFORE INCOME TAXES	1,808,796	445,050
Provision for income taxes	<u>755,318</u>	<u>291,132</u>
NET INCOME	<u>1,053,478</u>	<u>153,918</u>
Other comprehensive income, (loss) income, net of tax		
Foreign currency translation adjustment	(3,098)	(71,074)
COMPREHENSIVE INCOME	\$1,056,576	\$82,844
Income per common share – basic	\$0.14	\$0.02
Income per common share – diluted	\$0.14	\$0.02
Weighted average shares – basic	7,673,438	7,814,466
Weighted average shares – diluted	7,697,100	7,814,466

The accompanying notes are an integral part of these financial statements

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Common stock Shares	Common stock Amount	Additional paid-in capital	Foreign currency adjustment/ (deficit)	Retained earnings	Treasury stock	Total
January 1, 2008	7,871,816	\$78,718	\$7,780,547	(\$209,049)	\$440,691	(\$8,195)	\$8,082,712
Net income					153,918		153,918
Bonus shares to employees	15,000	150	17,250				17,400
Stock based compensation			130,472				130,472
Foreign currency translation adjustment				(71,074)			(71,074)
Purchase of Treasury stock 343,984 shares						(279,818)	(279,818)
December 31, 2008	7,886,816	\$78,868	\$7,928,269	\$(280,123)	\$594,609	\$(288,013)	\$8,033,610
Net Income					1,053,478		1,053,478
Bonus shares to employees	167,000	1,670	83,623				85,293
Stock based compensation			183,025				183,025
Foreign currency translation adjustment				3,098			3,098
December 31, 2009	\$8,816	\$80,538	\$8,194,917	\$(277,025)	\$1,648,087	\$(288,013)	\$9,358,504

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

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME	\$1,053,478	\$153,918
Adjustment to reconcile net income to net cash provided by operations		
Depreciation and amortization	709,855	787,460
Stock based compensation	268,318	147,872
Other operating non cash items	216,844	259,880
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable	(340,356)	(75,078)
Inventory	(152,462)	(811,752)
Deposit and other assets	31,404	69,091
Prepaid expenses	(138,402)	(80,856)
Accounts payable and other accrued liabilities	1,155,749	255,527
NET CASH PROVIDED BY OPERATING ACTIVITIES	706,062	706,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant & equipment	(393,816)	(332,043)
NET CASH PROVIDED IN INVESTING ACTIVITIES	(393,816)	(332,043)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) line of credit, net	(2,550,000)	1,050,000
Amounts due from affiliates	673,381	(801,243)
Payments of long-term debt	(568,769)	(559,856)
Purchase of treasury stock	—	(279,818)
NET CASH PROVIDED USED IN FINANCING ACTIVITIES	(2,445,388)	(590,917)
Change in cash prior to effect of exchange rate on cash	(34,776)	216,898
Effect of exchange rate on cash	2,693	(6,947)
NET DECREASE IN CASH	(32,083)	(223,845)
Cash at beginning of period	527,056	750,901
Cash at end of period	<u>\$494,973</u>	<u>\$527,056</u>
Supplemental disclosure of cash transactions		
Cash paid for interest during period	<u>\$205,626</u>	<u>\$231,882</u>
Cash paid for income taxes during period	<u>\$714,000</u>	<u>\$(110,395)</u>

The accompanying notes are an integral part of these financial statements

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

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 a contract exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectability of the related receivable is probable. Reported net sales are net of customer prompt pay discounts, contractual allowances, authorized customer returns, consumer rebates and other allowable deductions from our invoices.

COLLECTABILITY OF ACCOUNTS RECEIVABLE – Included in the consolidated balance sheets as of December 31, 2009 and 2008 are allowances for doubtful accounts aggregating approximately \$61,700 and \$117,600, 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, 2009 and 2008 aggregated approximately \$162,300 and \$83,500 respectively.

In January 2009, a significant customer filed for bankruptcy (Boaters' World), representing a maximum risk of loss on unrecoverable receivables of approximately \$210 thousand in total. The Company has written off approximately \$141 thousand and \$69 thousand during the years ended December 31, 2009 and 2008 respectively. The Company has filed with the Bankruptcy Courts for recovery of outstanding receivables, however at this time it is impossible to determine the amount of recovery.

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.

SHIPPING AND HANDLING COSTS – All shipping and handling costs incurred by us are included in operating expenses on the statements of income. These costs totaled approximately \$855,600 and \$886,200 for the years ended December 31, 2009 and 2008 respectively.

PREPAID ADVERTISING AND CATALOG COSTS – The Company capitalizes the direct cost of producing and distributing its catalogs. Capitalized catalog costs are amortized, once a catalog is distributed, over the expected net sales period, which is generally from one month to 12 months. Advertising costs, which are included in advertising and promotion ("A&P") expense, are expensed as incurred and were \$1.7 million and \$1.3 million in 2009 and 2008 respectively. At December 31, 2009 and 2008 the Company did not have any significant accumulated cost of collateral materials on hand.

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.

RESEARCH AND DEVELOPMENT COSTS – Research and development costs are expensed as incurred and recorded in selling, general and administrative expenses in the consolidated statements of operations. The Company incurred \$30 thousand of research and development expense for the fiscal years ended, 2009 and 2008, respectively.

STOCK BASED COMPENSATION – The Company follows, FASC 718-20-10 Compensation - Stock Compensation, which establishes standards surrounding the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Under FASC 718-20-10, we recognize an expense for the fair value of our outstanding stock options as they vest, whether held by employees or others.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 110. This guidance allows companies, in certain circumstances, to utilize a simplified method in determining the expected term of stock option grants when calculating the compensation expense to be recorded within FASC 718-20-10 Compensation - Stock Compensation. The simplified method can be used after December 31, 2007 only if a company's stock options exercise experience does not provide a reasonable basis upon which to estimate the expected option term. In 2008 and 2009, we utilized the simplified method to determine the expected option term, based upon the vesting and original contractual terms of the option.

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.

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 63% and 58% of consolidated net revenues for the years ended December 31, 2009 and 2008, and 58% and 32% of consolidated accounts receivable at December 31, 2009 and 2008, 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 (see Note 11).

CONCENTRATION OF CASH – At various times of the year and at December 31, 2009, 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 – We have adopted on January 1, 2008 SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - FASC 825, "Financial Instruments", which permits entities to choose to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. For purposes of this statement, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced sale or liquidation.

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, accounts payable, customer credits on account, certain accrued expenses and loans payable to related parties approximate their fair value due to the relatively short period to maturity for these instruments. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities, and the carrying amount approximates fair value. The adoption of this standard has not had a material effect on the consolidated results of operations and financial position of the Company for the reporting period.

IMPAIRMENT OF LONG-LIVED ASSETS – Potential impairments of long-lived assets are reviewed annually or when events and circumstances warrant an earlier review. In accordance with Financial Accounting Standards Codification (“FASC”) 360-10, impairment is determined when estimated future undiscounted cash flows associated with an asset are less than the asset’s carrying value.

INCOME TAXES – The Company follows the authoritative guidance for income taxes, Statement of Financial Accounting Standards Codification 740 (“FASC 740”) relating to the recognition of current and deferred income taxes. Under the asset and liability method of FASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under FASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In determining whether the realization of deferred tax assets may be impaired, we evaluate both positive and negative evidence as required in accordance with FASC 740-10. As of December 31, 2009, we have concluded that it is more likely than not that our deferred tax assets, being not in excess of recoverable income taxes and certain deferred tax liabilities, are probable of realization. Therefore, we recorded no valuation allowance for such deferred tax assets.

In 2007, we adopted the provisions under paragraphs 25-17 and 30-17 of FASC 740-10, Basic Recognition Threshold, previously discussed under FIN 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB No. 109, and related guidance and as a result, we recognize liabilities for uncertain tax positions based on the two-step process prescribed in the provision. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement with the taxing authorities. We reevaluate uncertain tax positions on a quarterly basis, based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, new audit activity and lapses in the statutes of limitations on assessment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period that such event occurs and can have a significant effect on our consolidated financial statements.

In accordance with FASC 740-10 the Company adopted the policy of recognizing penalties in selling and administrative expenses and interest, if any, related to unrecognized tax positions as income tax expense. The tax years 2005-2008 remain subject to examinations by major tax jurisdictions.

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. In accordance with FASC 350, the Company has determined that these intangible assets have indefinite lives and therefore we no longer recognize amortization expense. The Company evaluates intangible assets for impairment every fiscal year and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. 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.

FOREIGN CURRENCY – Translation adjustments result from translating foreign subsidiaries’ financial statements into U.S. dollars. The Company’s’ Canada’s functional currency is the Canadian dollar. Balance sheet accounts are translated at exchange rates in effect at the balance sheet date. Income statement accounts are translated

at average exchange rates during the year. Resulting translation adjustments are included as a component of Other Comprehensive Income in the Consolidated Statements of Stockholders' Equity. Gains (losses) from foreign currency transactions included in SG&A expense.

EARNINGS PER SHARE – The Company computes earnings per share in accordance with the provisions of FASC No. 260, "Earnings Per Share", which specifies the computation, presentation and disclosure requirements for earnings (loss) per share for entities with publicly held common stock. Basic earnings per share are computed by dividing net earnings available to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share are computed assuming the exercise of stock options under the treasury stock method and the related income taxes effects, if not anti-dilutive. For loss periods common share equivalents are excluded from the calculation, as the effect would be anti-dilutive. See Note 12 Earnings per share computation of basic and diluted number of shares.

NOTE 2 – INVENTORIES

The composition of inventories at December 31, 2009 and 2008 are as follows:

	2009	2008
Raw materials	\$3,595,862	\$3,254,212
Finished goods	<u>3,322,692</u>	<u>3,541,908</u>
	\$6,918,554	\$6,796,120
Inventory Reserves	<u>(255,308)</u>	<u>(231,211)</u>
Inventory Net	<u>\$6,663,246</u>	<u>\$6,564,909</u>

At December 31, 2009 and 2008 and for the years then ended, approximately \$255,300 and \$231,200 respectively is reflected in the accompanying consolidated financial statements as a reserve for slow moving inventory.

In 2008 the Company implemented a new vendor managed inventory program with one of its customers to improve the manner in which it promotes business. The Company manages the inventory levels at this customer's warehouses and is paid as the products are sold by such customer. This program was initiated in the 3rd quarter 2008 and was fully implemented in November 2008. The total sales credit issued initially to the customer in 2008 was approximately \$300,000. The inventories managed at such customer's warehouses amounted to approximately \$387,000 and \$146,000 at December 31, 2009 and 2008, respectively.

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

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

		ESTIMATED USEFUL LIFE – YEARS		2009	2008
Land				\$ 278,325	278,325
Buildings	30 years			4,402,275	4,389,154
Manufacturing and warehouse equipment	6-20 years			6,877,940	6,592,558
Office equipment and furniture	3-5 years			541,449	525,734
Construction in process				109,001	71,929
Leasehold improvement	<u>10-15 years</u>			<u>122,644</u>	<u>122,644</u>
				12,331,634	11,980,344
Less accumulated depreciation				<u>6,867,278</u>	<u>6,199,949</u>
Total property, plant and equipment, net				<u>\$5,464,356</u>	<u>\$5,780,395</u>

Depreciation expense for the years ended December 31, 2009 and 2008, which includes amortization of capitalized lease assets, amounted to approximately \$709,900 and \$787,500 respectively

NOTE 4 – REVOLVING LINE OF CREDIT

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

The line was renewed and currently matures on May 31, 2011, bears interest at the 30 Day LIBOR plus 250 basis points (approximately 2.7% at December 31, 2009) and is secured by our trade receivables, inventory, and intangible assets. Under this arrangement, the borrowing base of the loan is calculated based on 80% of the accounts receivable and 50% of the inventory values, as defined in the loan agreement. The terms, including required financial covenants relating to maintaining minimum working capital levels, maintaining stipulated debt to tangible net worth and adhering to debt coverage ratios, and collaterals were substantially unchanged. We are required to maintain a minimum working capital of \$1.5 million and meet certain other financial covenants during the term of the agreement. At December 31, 2009 and 2008 the Company was in compliance with all financial covenants of the loan agreement and below the amount of the calculated borrowing base.

As of December 31, 2009 and 2008 the Company was obligated to its commercial lender under this arrangement in the amounts of \$250,000 and \$2,800,000 respectively. The average outstanding loan balances at the years ended December 31, 2009 and 2008 were approximately \$2,046,000 and \$2,415,000. Interest incurred for the years ended December 31, 2009 and 2008 were approximately \$49,000, and \$121,000, respectively.

NOTE 5 – ACCRUED EXPENSES PAYABLE

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

	2009	2008
Accrued customer promotions	\$ 367,453	119,256
Accrued payroll, commissions and employee benefits	238,285	174,013
Accrued income taxes	222,055	180,737
Accrued insurance	160,832	132,130
Other accrued expenses	<u>230,361</u>	<u>277,219</u>
TOTALS	<u>\$1,191,987</u>	<u>\$883,354</u>

NOTE 6 – LONG-TERM DEBT

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, 2009, \$765,000 and \$2,600,000 were outstanding attributable to the 1997 and 2002 series, respectively. During the years ended December 31, 2009 and 2008, interest rates ranged between 3.2% and 5.3%, and 1.5% and 8.6% annually, respectively. At December 31, 2008, \$1,105,000 and \$2,720,000 were outstanding attributable to the 1997 and 2002 series, respectively. Interest expense for 2009 and 2008 were approximately \$153,300 and \$128,100, 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. On September 26th and October 6th, 2008 the Company was notified by its primary commercial bank, that both the 1997 and 2002 series bonds were being tendered. There has been no default on these bonds by the Company. It is the understanding of the Company that due to the tight credit markets, these bonds were tendered. As a result the Company has been temporarily obligated to its primary commercial bank, for a few weeks during the fourth quarter 2008 and since February 2009, until the credit markets improve sufficiently to remarket these bonds. The interest rate on the loans during this period was prime rate or 5%. (See Note 13)

During 2009 and 2008, the Company was obligated pursuant to various capital lease agreements covering equipment utilized in the Company's business activities. Such obligations, aggregating approximately \$51,900 and \$60,680 at December 31, 2009 and 2008 respectively, have varying maturities through 2012 and carry interest rates ranging from 7% to 12% for both years.

On April 12, 2005 the Company entered into a financing obligation with Regions Bank whereby the bank advanced the Company \$500,000 to finance equipment acquisitions at the Kinpak facility. Such obligation is due in monthly installments of principal aggregating approximately \$8,300 plus interest. The outstanding balance and interest rate on this obligation at December 31, 2009 and 2008 were approximately \$33,400 and \$133,000 respectively. Interest rate is calculated at LIBOR plus 2.5% per annum, respectively 2.7% at December 31, 2009 and 3.6% at December 31, 2008, through the maturity on April 15, 2010. Interest incurred for 2009 and 2008 was approximately \$2,300 and \$9,700 respectively.

The composition of these obligations at December 31, 2009 and 2008 were as follows:

	CURRENT PORTION		LONG TERM PORTION	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Industrial Development Bonds	\$460,000	\$460,000	\$2,905,000	\$3,365,000
Notes payable	33,352	99,996	—	33,352
Capitalized equipment leases	<u>19,701</u>	<u>24,541</u>	<u>32,206</u>	<u>36,139</u>
	\$513,053	\$584,537	\$2,937,206	\$3,434,491

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

Year ending December 31,	
2010	513,053
2011	478,226
2012	456,432
2013	442,548
<u>2014</u>	<u>440,000</u>
Thereafter	1,120,000
TOTAL	\$3,450,259

NOTE 7 – INCOME TAXES

The Company follows FASC 740 for the recognition of income tax expense. Under the asset and liability method of FASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under FASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

	2009	2008
Income tax provision (benefit):		
Federal - current	\$709,464	\$291,132
- deferred	45,854	—
State	—	—
TOTAL	\$755,318	\$291,132

The reconciliation of income tax provision at the statutory rate to the reported income tax expense is as follows:

	2009		2008	
	AMOUNT	%	AMOUNT	%
Income tax computed at statutory rate	\$614,991	34%	\$151,317	34%
Increase (reduction) in income taxes resulting from:				
Share based compensation	91,228	5%	50,276	11%
Change in deferred taxes & valuation allowance	80,933	4%	120,754	27%
Other permanent adjustments	10,200	1%	9,704	2%
Tax credits and prior year tax adj.	<u>(42,034)</u>	<u>-2%</u>	<u>(40,919)</u>	<u>-9%</u>
	\$755,318	42%	\$291,132	65%

For the year tax year 2008 the Company used available tax loss carryovers available to offset current taxable income aggregating approximately none for federal taxes and approximately none for state tax purposes, expiring in various years through 2026.

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

	2009	2008
DEFERRED TAX ASSETS:		
Depreciation of property and equipment	\$ —	\$ —
Reserve for bad debts, inventories and other accruals	(107,793)	(203,710)
Net operating loss carryforwards	—	—
DEFERRED TAX LIABILITIES:		
Depreciation of property and equipment	<u>153,647</u>	<u>199,643</u>
NET	(45,854)	(4,067)
Less valuation allowance	<u>45,854</u>	<u>4,067</u>
NET DEFERRED TAX (ASSET)/LIABILITY	\$ —	\$ —

The Company has provided for a valuation allowance against the 2009 deferred tax asset, as there was no assurance that the Company would generate future taxable income to derive benefit from the deferred tax assets at the time when such tax assets would become current.

NOTE 8 – RELATED PARTY TRANSACTIONS

At December 31, 2009 and 2008, 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 \$237,000 and \$911,000, 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 a profit covering manufacturing overhead costs. In addition, the affiliates are charged for their allocable share of administrative expenses of the Company. The sales and transfers to affiliates aggregated approximately \$1,148,400 and \$1,208,000 during the years ended December 31, 2009 and 2008, respectively; allocable administrative fees aggregated \$325,000 and \$275,000 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.

A subsidiary of the Company currently uses the services of an entity that is owned by an officer of the Company to conduct product research and development. Such entity received \$30,000 per year during the years ended December 31, 2009 and 2008 under such relationship.

A director of the Company sources most of the Company's insurance needs at an arm's length competitive basis.

NOTE 9 – 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 plus applicable taxes for the first year and provides for a maximum 2% increase on the anniversary of the lease throughout the term. Additionally, the landlord is entitled to its pro-rata share of all taxes, assessments, and any other expenses that arise from ownership.

On May 1, 2008, the Company renewed for ten years the existing lease with unchanged conditions. The lease still requires a minimum rental of \$94,800 plus applicable taxes for the first year and provides for a maximum 2% increase on the anniversary of the lease throughout the term. Additionally, the landlord is entitled to reimbursement of all taxes, assessments, and any other expenses that arise from ownership. The landlord reserves the right under the agreement to review the terms of the lease at 3, 6 and 9 year intervals in order to make modifications for market conditions. Total rent charged to operations during the years ended December 31, 2009 and 2008 amounted to approximately \$100,500 each year.

The Company had entered into a corporate guaranty of a mortgage note obligation of such affiliate. The obligation aggregated approximately \$274,000 at December 31, 2007, primarily secured by the real estate leased to the Company. The property was refinanced in the 2nd quarter 2008, without a corporate guaranty.

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

12 month period ending December 31,	
2010	101,828
2011	103,864
2012	105,942
2013	108,061
2014	110,222
Thereafter	<u>383,315</u>
TOTAL	\$913,232

NOTE 10 – 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.

During 2007, the Company adopted a qualified employee stock option plan covering 400,000 shares of its common stock.

During 2008, 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 schedules reflect the status of outstanding options under the Company's four stock option qualified and non-qualified plans as of December 31, 2009 and 2008.

2009 YEAR-END

<u>Plan</u>	<u>Date Granted</u>	<u>Options Outstanding</u>	<u>Exercisable Options</u>	<u>Exercise Price</u>	<u>Expiration Date</u>	<u>Wt. Av. Remaining Life</u>
NON PLAN	03/25/09	115,000	115,000	0.55	3/24/14	4.2
2002 PLAN	11/06/06	118,000	70,800	0.93	11/05/11	1.8
2007 PLAN	05/17/07	167,500	67,000	1.66	05/16/12	2.4
2007 PLAN	10/08/07	2,500	1,000	1.87	10/07/12	2.8
2007 PLAN	12/17/07	156,500	62,600	1.32	12/16/12	3.0
2008 PLAN	08/25/08	159,500	31,900	0.97	08/21/13	3.6
2002 PLAN NQ	10/22/02	35,000	35,000	1.26	10/21/12	2.8
2002 PLAN NQ	06/20/03	30,000	30,000	1.03	06/19/13	3.5
2002 PLAN NQ	05/25/04	30,000	30,000	1.46	05/24/14	4.4
2002 PLAN NQ	04/03/06	40,000	40,000	1.08	04/02/16	6.3
2002 PLAN NQ	12/17/07	50,000	50,000	1.32	12/16/17	8.0
2008 PLAN NQ	01/11/09	50,000	50,000	0.69	01/10/19	9.0
		<u>954,000</u>	<u>583,300</u>	1.13		<u>3.8</u>

2008 YEAR-END

<u>Plan</u>	<u>Date Granted</u>	<u>Options Outstanding</u>	<u>Exercisable Options</u>	<u>Exercise Price</u>	<u>Expiration Date</u>	<u>Wt. Av. Remaining Life</u>
NON PLAN	03/25/99	231,000	231,000	0.7576	03/24/09	—
1994 PLAN	10/26/04	154,500	131,325	1.05	10/25/09	0.8
2002 PLAN	03/02/04	137,000	130,150	1.62	03/01/09	0.2
2002 PLAN	11/06/06	133,000	53,200	0.93	11/05/11	2.9
2007 PLAN	05/17/07	162,500	44,250.2	1.66	05/16/12	4.1
2007 PLAN	10/08/07	2,000	400	1.87	10/07/12	3.8
2007 PLAN	12/17/07	156,500	30,700	1.32	12/16/17	4.0
2002 PLAN NQ	10/22/02	35,000	35,000	1.26	10/21/12	3.8
2002 PLAN NQ	06/20/03	30,000	30,000	1.03	06/19/13	4.5
2002 PLAN NQ	05/25/04	40,000	40,000	1.46	05/24/14	5.4
2002 PLAN NQ	04/03/06	30,000	30,000	1.08	04/02/16	7.3
2002 PLAN NQ	12/17/07	<u>50,000</u>	<u>50,000</u>	1.32	12/16/17	<u>9.0</u>
		<u>1,321,000</u>	<u>806,025</u>	1.17		<u>2.8</u>

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.

As of December 31, 2009, the number of options outstanding and the number of shares available for grant under each Stock Options qualified and non-qualified plan options is presented below:

PLAN	OPTIONS OUTSTANDING	OPTIONS AVAILABLE FOR GRANT
NON-PLAN	115,000 shares	N/A
1994 PLAN	0 shares	None
2002 PLAN	118,000 shares	None
2007 PLAN	326,500 shares	73,500 shares
2008 PLAN	159,500 shares	240,500 shares
2002 PLAN NQ	185,000 shares	15,000 shares
2008 PLAN NQ	50,000 shares	150,000 shares
Total	954,000 shares	464,000 shares

A summary of the Company's stock options as of December 31, 2009 and 2008, and changes during the years ending on these dates, is presented below:

	2009		2008	
	<u>Shares</u>	<u>Wt. Av. Exercise Price</u>	<u>Shares</u>	<u>Wt. Av. Exercise Price</u>
Options outstanding at beginning of year	1,090,000	\$1.26	930,500	\$1.31
Options Granted	50,000	0.69	159,500	0.97
Options Exercised	—	—	—	—
Options Forfeited or Exercised	(301,000.00)	1.30	—	—
Options outstanding at end of year	839,000	\$1.21	1,090,000	\$1.26
Non Plan Options	115,000	0.55	231,000	0.76
Totals	954,000	\$1.13	1,321,000	\$1.17

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. Qualified 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. Non-qualified options granted to outside Directors have a 10 year life and are immediately exercisable. Compensation cost recognized during the year ended December 31, 2009 and 2008 attributable to stock options amounted to approximately \$183,000 and \$130,500, respectively.

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following assumptions for the years 2009 and 2008; risk free rate ranging from 3.57% to 4.88%, no dividend yield for all years, expected life from three years to five years and volatility of approximately 100.0% to 108.0%.

As of December 31, 2009 and 2008 there was approximately \$258,600 and \$389,700 of unrecognized compensation cost related to unvested share based compensation arrangements. That cost will be charged against operations as the respective options vest through December, 2013.

NOTE 11 – MAJOR CUSTOMERS

The Company has two major customers, with sales in excess of 10% of consolidated net revenue for the year ended December 31, 2009. Sales to these two customers represented approximately 35% and 15% of consolidated net revenues. In 2008, one customer had sales that represented approximately 38% of net revenues.

The Company's top five customers represented approximately 63% and 58%, of consolidated net revenues for the years ended December 31, 2009 and 2008 and 58% and 32% of consolidated trade receivables at the balance sheet dates December 31, 2009 and 2008, 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. The Company has included in the consolidated balance sheet as of December 31, 2008 an additional

allowance for doubtful accounts aggregating approximately \$69,000 to reflect outstanding receivables to Boaters' World at December 31, 2008 related to bankruptcy filings for Boaters' World. In 2009 the Company provided an additional allowance for doubtful accounts of \$141,000 for 2009 sales to Boaters' World. The recession is expected to increase the Company's risk related to sales and collection of accounts receivable.

NOTE 12 – EARNINGS PER SHARE

Earnings per share are reported pursuant to the provisions of FASC 210. Accordingly, basic earnings per share reflects the weighted average number of shares outstanding during the year, and diluted shares adjusts that figure by the additional hypothetical shares that would be outstanding if all exercisable outstanding common stock equivalents with an exercise price below the current market value of the underlying stock were exercised. Common stock equivalents consist of stock options and warrants. The following tabulation reflects the number of shares utilized to determine basic and diluted earnings per share for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Basic weighted-average common shares outstanding	7,673,438	7,814,466
Dilutive effect of stock plans, other options & conversion rights	23,662	0
Dilutive weighted-average shares outstanding	7,697,100	7,814,466

NOTE 13 – SHAREHOLDERS' EQUITY

During the years ended December 31, 2009 and 2008 the Company granted 167,000 and 15,000 shares of restricted common stock, respectively to certain executives, key employees and others as a component of annual compensation. Charges to operations attributable to such awards aggregated approximately \$85,300 and \$17,400 for each period, respectively.

Compensation costs recognized during the years ended December 31, 2009 and 2008 attributable to stock options amounted to \$183,025 and \$130,472, respectively and is reflected in the accompanying financial statements as increase in additional paid-in capital

NOTE 14 – SUBSEQUENT EVENTS

In May 2009, the FASB issued accounting guidance now codified as FASC Topic 855, "Subsequent Events," which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASC Topic 855 is effective for interim or fiscal periods ending after June 15, 2009. Accordingly, we adopted the provisions of FASC Topic 855 on June 30, 2009. We evaluated subsequent events for the period from December 31, 2009, the date of these financial statements, through March 25, 2010, which represents the date these financial statements are being filed with the Commission. Pursuant to the requirements of FASC Topic 855, there were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements. With respect to this disclosure, we have not evaluated subsequent events occurring after March 25, 2010.

On January 19, 2010, the Company entered into a Letter of Intent with BBL Distributing, Inc. to form a joint venture with Odor Star Technology LLC. This venture would expand the Company into a new group of products using chlorine-dioxide with a patented delivery system to safely kill mold, mildew, bacteria, and viruses. On December 15, 2009, Odor Star Technology was organized in the State of Florida as an LLC as a 50% joint venture.

On March 3, 2010, the Company received notification from its re-marketing agent that its City of Montgomery, AL. Series 1997 and Series 2002 Industrial Revenue Bonds with an approximate aggregate balance of \$3,250,000, were sold to various bondholders. As previously disclosed, these bonds were tendered back to the Company during February 2009 resulting in a default interest rate of approximately prime rate. As a result of the re-marketing, the current interest rate will be approximately 2 percent per annum and will adjust weekly, based on prevailing trends in the tax exempt interest market. These bonds are backed with a Letter of Credit from the financial institution. Under the terms of the Letter of Credit, the financial institution is obligated to pay the bondholders, if tendered.

NOTE 15 – RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (“FASB”) has recently issued several new accounting pronouncements which may apply to the Company.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued guidance now codified as FASB ASC Topic 820, “Fair Value Measurements and Disclosures,” which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The pronouncement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB released additional guidance now codified under FASB ASC Topic 820, which provides for delayed application of certain guidance related to non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those years. Pursuant to the requirements of FASB ASC Topic 820, we adopted the provisions of Topic 820 with respect to our non-financial assets and non-financial liabilities effective April 1, 2009. The implementation of this pronouncement had no impact on our consolidated financial position, results of operations or cash flows.

In January 2010, the FASB amended guidance now codified as FASB ASC Topic 810, “Consolidation.” FASB ASC Topic 810 changes the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. The amendment of FASB ASC Topic 810-10 establishes the accounting and reporting guidance for non-controlling interests and changes in ownership interests of a subsidiary. FASB ASC Topic 810 is effective for us on a prospective basis for business combinations with an acquisition date beginning in the first quarter of fiscal year 2010. As of March 31 and December 31, 2009, we did not have any minority interests. The adoption of FASB ASC Topic 810 as amended did not have an impact on our consolidated financial statements.

In June 2008, the FASB issued guidance now codified as FASB ASC Topic 260, “Earnings Per Share.” Under FASB ASC Topic 260, unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing earnings per share. As of April 1, 2009, we implemented FASB ASC Topic 260 which requires us to treat unvested shares of restricted stock as participating securities in accordance with the two-class method in the calculation of both basic and diluted earnings per share. We had no shares of unvested restricted stock as of December 31, 2008 so the retrospective application of FASB ASC Topic 260 had no effect on our earnings per share for the quarter or nine months ended December 31, 2008.

In November 2008, the FASB issued guidance now codified as FASB ASC Topic 815, “Derivatives and Hedging.” that changes the disclosure requirements for derivative instruments and hedging activities. We will be required to

provide enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for under FASB ASC Topic 815, and its related interpretations, and (c) how derivative instruments and related hedged items affect our financial position, financial performance, and cash flows. The adoption of FASB ASC Topic 815 did not have an impact on our financial position, results of operations or cash flows.

In December 2008, the FASB issued guidance now codified as FASB ASC Topic 805, "Business Combinations" which requires that business combinations will result in assets and liabilities of an acquired business being recorded at their fair values as of the acquisition date, with limited exceptions. Certain forms of contingent consideration and certain acquired contingencies will be recorded at fair value at the acquisition date. FASB ASC Topic 805 also states acquisition costs will generally be expensed as incurred and restructuring costs will be expensed separately from the business combination in periods after the acquisition date. We will be required to apply this new standard prospectively to business combinations for which the acquisition date is on or after April 1, 2009. The adoption of FASB ASC Topic 805 did not have an impact on our consolidated financial statements.

Effective January 1, 2009, we adopted FASB guidance now codified as FASB ASC Topic 718-740, "Compensation – Stock Compensation, Income Taxes." FASB ASC Topic 718-740 requires us to recognize a realized income tax benefit associated with dividends or dividend equivalents paid on non-vested equity-classified employee share-based payment awards that are charged to retained earnings as an increase to additional paid-in capital. The adoption of FASB ASC Topic 718-740 did not have a material impact on our financial position, results of operations or cash flows.

In April 2009, the FASB issued guidance now codified as FASB ASC Topic 825, "Financial Instruments," which amends previous Topic 825 guidance to require disclosures about fair value of financial instruments in interim as well as annual financial statements. This pronouncement is effective for periods ending after June 15, 2009. The adoption of this pronouncement did not have an impact on our consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued guidance now codified as FASB ASC Topic 855, "Subsequent Events," which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. We adopted FASB ASC Topic 855 on June 30, 2009 with no material effects to the financial results of the Company.

In June 2009, the FASB issued guidance now codified as FASB ASC Topic 105, "Generally Accepted Accounting Principles," as the single source of authoritative non-governmental U.S. GAAP. FASB ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. These provisions of FASB ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for us for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on our financial condition or results of operations, but will impact our financial reporting process by eliminating all references to pre-codification standards. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

In January 2010, the FASB amended its guidance now codified as FASB ASC Topic 505-20, "Equity – Stock Dividends and Stock Splits," to clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for

purposes of applying Topics 505 and 260. These provisions of FASB ASC Topic 505 are effective for interim and annual periods ending after December 15, 2009 and, accordingly, are effective for us for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on our financial condition or results of operations as we do not currently have distributions that allow shareholders such an election.

In January 2010, the FASB amended its guidance now codified as FASB ASC Topic 718-10-S99, "Compensation – Stock Compensation – Escrowed Share Arrangement and the Presumption of Compensation," to clarify SEC staff views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. The adoption of this pronouncement did not have an impact on our financial condition or results of operations.

In December 2009, the FASB issued FASB ASU 2009-16, "Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets", to clarify SFAS 166, "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140", which amends the derecognition guidance in FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. This statement is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. This statement will be effective for us beginning in our fiscal 2010. We do not believe that the adoption of ASU 2009-16 will have a material effect on our consolidated financial statements.

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and believes that, with the exception of the pronouncements noted above, no other accounting standards or interpretations issued or recently adopted are expected to have a material impact on the Company's results of operations, financial position or cash flow.

INVESTOR INFORMATION NASDAQ STOCK SYMBOL OBCI

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General Counsel

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Fort Lauderdale, Florida 33301

Auditors

Kramer Weisman and Associates, LLP
12515 Orange Drive, Suite 814
Davie, Florida 33330

Reports and Publications

A free copy of the Company's 2009 Form 10-K filed with the Securities and Exchange Commission can be obtained upon written request to:

Corporate Relations Department
4041 SW 47th Avenue
Fort Lauderdale, Florida 33314

COMMON STOCK MARKET INFORMATION

The following table sets forth high and low sale prices of the Common Stock of Company as reported on the NASDAQ Global Market for each calendar quarter in 2009 and 2008:

	2009		2008	
	High	Low	High	Low
First Quarter	\$0.75	\$0.42	\$1.50	\$1.24
Second Quarter	1.05	0.46	1.50	1.09
Third Quarter	1.17	0.78	1.18	0.93
Fourth Quarter	1.14	0.81	0.95	0.62

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* A member of audit committee

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Vice President of Operations

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Vice President of Sales

George W. Lindsey, Jr.

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HISTORY OF STAR BRITE® / KINPAK, INC.

Star brite's main manufacturing and distribution facility is Kinpak, Inc., located on a 20-acre site in Montgomery, Alabama. In addition to Star brite® products, Kinpak also manufactures numerous items under private label programs for major oil companies and consumer goods retailers. The facility's 300,000 s.f. manufacturing, blending, packing, and distribution center features a 500,000 gallon tank farm plus an additional 1.2 million gallon off-site tank farm, as well as a fully-equipped R&D laboratory and a quality control center that performs quality audits for each phase of the production process.

The plant has 300,000 gallons of blending capacity plus

multiple blow-molding machines that produce custom PVC and HDPE bottles in various colors and shapes. There are ten fully-automated high-speed liquid filling lines, pail lines, one drum filling line, bulk load filling lines, plus grease filling lines capable of filling containers from 4 ounces to 55 gallons in size at speeds up to 120 gallons per minute.

Finished goods are secured by automatic case packers, case sealers and palletizers. In addition to a line of truck loading docks, the facility has a rail spur capable of handling 20 railcars. Kinpak's off-site facility is a five-acre marine terminal on the Alabama River for accepting shipments of raw materials by barge and rail.

Star brite® products are available at marine, power sports, outdoor power equipment and hardware stores, as well as at sporting goods stores, farm stores and automotive and RV stores worldwide.

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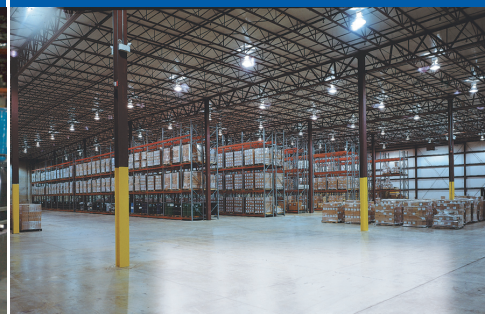
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