



obci
OCEAN BIO-CHEM, INC★

2021 ANNUAL REPORT



FINANCIAL HIGHLIGHTS
Amounts in Millions (except per share amounts)

	2021	2020	2019	2018	2017
Net Sales	\$64.3	\$55.6	\$42.3	\$41.8	\$37.9
Operating Income	\$10.9	\$12.2	\$4.6	\$3.7	\$3.7
Net Income	\$8.4	\$9.6	\$3.5	\$2.8	\$2.6
Earnings Per Share (Diluted)	\$0.89	\$1.02	\$0.37	\$0.30	\$0.28
Dividends Per Common Share	\$0.12	\$0.08	\$0.05	\$0.06	\$0.06
Operating Cash Flow	\$5.5	\$6.2	\$6.0	\$1.2	\$2.9

OBCI BRAND PORTFOLIO



VARIOUS STATEMENTS IN THIS ANNUAL REPORT, including estimates, projections, objectives and expected results, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are generally identified by the words "believe," "expect," "anticipate," "intend," "opportunity," "plan," "potential," "project," "will," "should," "could," "would," "likely" and similar expressions. Forward-looking statements are based on current assumptions that are subject to risks and uncertainties that may cause actual results to differ materially from the forward-looking statements, including the risks and uncertainties discussed in Item 1A - Risk Factors of the Form 10-K/A included in this Annual Report. Such forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise publicly any forward-looking statements, except as required by law.

DEAR SHAREOWNERS,

The Star brite team once again delivered another year of outstanding results, from record sales to industry-leading on-time production output. During a year wrought with supply-chain issues, labor shortages, and increased customer demand, the Star brite team came together to overcome these challenges and break more sales records.

The Company reported record net sales for the full year of 2021 of approximately \$64.3 million, compared to approximately \$55.6 million for 2020, an increase of approximately \$8.7 million or 15.7%.

After record sales in 2020, the Company continued its sales growth with another strong double-digit sales increase in 2021. And combined for the two-year period 2020-2021, the Company increased sales approximately 52.2% or \$22.0 million.

The Company's 2021 full year net income was approximately \$8.4 million, compared to \$9.6 million for 2020, a decrease of approximately \$1.2 million or 12.6%. Earnings per share for 2021 were \$0.89 compared to \$1.02 for 2020, a decrease of approximately 12.7%.

We saw sustainable sales growth in 2021 in our Core marine chemicals. These higher margin products increased almost 20% from 2020. We expect these numbers to continue a positive trend for two reasons: supply and demand.

Current supply-chain issues are still lingering, even as much of the country has lifted COVID-related restrictions. As demonstrated, Star brite has proven extremely successful in navigating these obstacles and keeping shelves stocked with both our branded and private label products. Our On-Time In-Full (OTIF) delivery rate remained at 98.5% to customers throughout 2021.

As in many other industries, research has shown that consumers are switching brands at unprecedented numbers as buying habits were disrupted throughout the pandemic, with availability of product being a top reason for trying a new brand. Of consumers who have tried different brands, 73 percent intend to continue to incorporate the new brands into their routine. The availability of Star brite and Company-manufactured private label products supported the sales increase in Core chemicals.

Demand from new boaters entering the industry also contributed. As we continue to see boat sales remain higher than average, these new customers are looking for reliable brands to protect their investments. With almost 50 years of manufacturing appearance and maintenance chemicals, the Star brite brand fits that bill.



**AT OBCI,
WE BUILD BRANDS
AND PRODUCTS
THAT CREATE
OUTSTANDING RESULTS
FOR CONSUMERS,
CUSTOMERS, AND
SHAREHOLDERS.**

WE INVEST IN THE FUTURE

Building beyond tomorrow is the strategy for success today.

The record-setting financial numbers that the Company delivered in 2021 are in part the result of our long-term strategy of investments in our manufacturing plant, Kinpak, Inc.



Kinpak, Inc. - Manufacturing plant in Montgomery, Alabama.

In the first quarter of 2022 we have completed the second major plant/distribution expansion in less than five years. This brings our total manufacturing/distribution facility in Montgomery, AL, to 370,000 sq. ft. on our 23-acre site. Additionally, we are upgrading our manufacturing capabilities with new state-of-the-art bottling and blow molding equipment. The capital investment is approximately \$1.2 million. This investment will increase the production volume of bottles to meet our growing needs as well as increased quality. With our plant

expansion and new equipment, we are well positioned to meet customer sales in 2022 and beyond.

Our innovative planning and investment strategy has remained solid; previous manufacturing expansions and upgrades proved extremely beneficial in our financial success in 2021. While other suppliers and manufacturers—dependent on imports and outsourcing of materials and products—could not meet customer demands, our made-in-USA, vertical manufacturing facility was well-positioned to ramp up production. This increase in production resulted in an overall increase in gross margin for the Company, as the fixed plant expenses were spread over the higher production volume, delivering a higher return per product.

THE YEAR AHEAD

Looking forward to the future, we're excited to see our customer-base grow and evolve. Growth of both boaters and RV owners over the past two years has outpaced supply. As talk of a recession circulates, we believe our business and business strategy has a proven track record of success even during harder times. We saw sales growth in double digits throughout the pandemic, and we also did not see a downturn during the 2008 recession. With higher gas prices surging, the demand for mileage-enhancing fuel treatments such as Star Tron also increase.

Speaking of Star Tron, we are extremely excited to take the brand into the next phase of its life this upcoming year. With new products launching soon and additional line extensions planned, its place as a brand for Performance Chemicals is further



solidified. So far in 2022, Star Tron Lubricants are on shelves nationwide. Two 4-stroke marine oils and one 2-stroke in both gallons and quarts are now available. In addition, Star Tron Quick Fix is due in US stores in June and is already available in Canadian retailers. Another exciting announcement is our new Star Tron Stabilizer+, which will be the first major extension to our Star Tron brand.

To support the launch of these new products and bolster our current lines, we've invested more in high-visibility advertising, including expanding our sponsored TV-show lineup. This year we saw the debut of the first RV travel show on a major network—RV There Yet?—to a great reception. Star brite also added Peter Miller's Uncharted Waters to our line-up as well as became the presenting sponsor for In-Fisherman TV, the top-rated show on Outdoor Channel and Sportsman Channel. We also saw more airtime on major sports networks, such as ESPN-owned channels.

We are optimistic and excited about the continued growth and momentum of our business and profits, as well as the support of our OBCI family. Thank you to every team member for contributing to the outstanding results we delivered in 2021. Let's keep those lines running.



TELEVISION SCHEDULE 2022

Network	Q1	Q2	Q3	Q4
Discovery	George Poveromo's World of Saltwater Fishing			
	Sportsman's Adventures with Captain Rick Murphy			
	Uncharted Waters with Peter Miller NEW			
	Scott Martin Challenge			
FOX SPORTS FS1	Bassmaster Classic NEW			
	Bassmaster Elites			
ESPN	Scott Martin Challenge			
	Sportsman's Adventures with Captain Rick Murphy			
CBS SPORTS	Scott Martin Challenge			
	Major League Fishing			
Outdoor CHANNEL	In-Fisherman TV NEW			
	Sportsman's Adventures with Captain Rick Murphy			
Bally SPORTS	Texas Insider Fishing Report			
	Florida Insider Fishing Report			
	Scott Martin Challenge			
SPORTSMAN CHANNEL	Major League Fishing			
	In-Fisherman TV NEW			
SPORTSMAN CHANNEL CANADA	Scott Martin Challenge			
	In-Fisherman TV NEW			
WORLD FISHING NETWORK	George Poveromo's World of Saltwater Fishing			
	In-Fisherman TV			
	Uncharted Waters with Peter Miller NEW			
MOTOR TREND	Scott Martin Challenge			
	RV There Yet? NEW			
pursuit	Sportsman's Adventures with Captain Rick Murphy			

Thank you.

Peter G. Dornau

Chairman of the Board, President and Chief Executive Officer



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2021

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 000-11102

OCEAN BIO-CHEM, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of
incorporation or organization)

59-1564329

(I.R.S. Employer
Identification No.)

**4041 SW 47 AVENUE
FORT LAUDERDALE, FLORIDA 33314**
(Address of principal executive offices)

954-587-6280

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.01 par value	OBCI	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known 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 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 whether registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.



Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act by the registered public accounting firm that prepared or issued its audit report.


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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2021 was \$35,691,560, based upon the closing price of the registrant's common stock on such date as reported by the NASDAQ Capital Market. For purposes of making this computation only, all executive officers, directors and beneficial owners of more than five percent of the registrant's common stock are deemed to be affiliates.

At March 30, 2022, 9,509,799 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, which will be filed not later than May 2, 2022 (the first business day after the 120th day following the end of the registrant's fiscal year), are incorporated by reference in Part III of this report.



OCEAN BIO-CHEM, INC.

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Forward-looking Statements:

Certain statements contained in this Annual Report on Form 10-K, including without limitation, estimated costs of expansion of facilities operated by our wholly-owned subsidiary, KINPAK Inc. (“Kinpak”), our ability to locate substitute third party manufacturing facilities without a substantial adverse effect on our manufacturing and distribution, our ability to provide required capital to support inventory levels, the effect of price increases in raw materials that are petroleum or chemical based or commodity chemicals on our margins, the sufficiency of funds provided through operations and existing sources of financing to satisfy our cash requirements and our expectation that we will be able to maintain borrowings, if any, under our current revolving line of credit facility until the end of its stated term constitute forward-looking statements. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as “believe,” “may,” “will,” “expect,” “anticipate,” “intend,” or “could,” including the negative or other variations thereof or comparable terminology, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from those expressed or implied by such forward-looking statements. Factors that may affect these results include, but are not limited to, the impact of the COVID-19 pandemic on our business and the economy in general, the highly competitive nature of our industry; reliance on certain key customers; changes in consumer demand for marine, recreational vehicle and automotive products; expenditures on, and the effectiveness of, our advertising and promotional efforts; unanticipated litigation developments; exposure to market risks relating to changes in interest rates, foreign currency exchange rates and prices for raw materials that are petroleum or chemical based; and other factors discussed below under Item 1A, “Risk Factors.”

PART I

Item 1. Business

General:

We are principally engaged in the manufacture, marketing, and distribution of a broad line of appearance, performance and maintenance products for the marine, automotive, power sports, recreational vehicle, home care and outdoor power equipment markets, under the Star brite® and Star Tron® brand names. We sell these products within the United States of America and Canada. In addition, we produce private label formulations of many of our products for various customers and provide custom blending and packaging services for these and other products. We also manufacture, market and distribute chlorine dioxide-based deodorizing disinfectant, and sanitizing products under the Star brite® and Performacide® brand names, utilizing a patented delivery system for use with products containing chlorine dioxide. Unless the context indicates otherwise, we sometimes refer to Ocean Bio-Chem, Inc. and its consolidated subsidiaries as “the Company,” “we” or “our.”

Ocean Bio-Chem, Inc. was incorporated in 1973 under the laws of the state of Florida. In 1981, we purchased, from Peter G. Dornau and Arthur Spector, the co-founders of the Company, rights to the Star brite® trademark and related products for the United States and Canada. Mr. Dornau, our Chairman, President and Chief Executive Officer, has retained rights to these assets with respect to all other geographic areas. Accordingly, products we manufacture that are sold outside of the United States and Canada are purchased from us and distributed by two companies owned by Mr. Dornau. Net sales to the two companies in 2021 and 2020 totaled approximately \$2,373,000 and \$2,212,000, representing 3.7% and 4.0% of our net sales, respectively. See Note 10 to the consolidated financial statements included in this report for additional information.

Because our operations involve, in all material respects, substantially similar manufacturing and distribution processes, our operations constitute one reportable segment for financial reporting purposes.

Recent Developments:

In February of 2022, the Company’s wholly owned subsidiary, KINPAK Inc. (“Kinpak”) completed an expansion of its manufacturing and distribution facilities by an additional 69,000 square feet on its 23-acre site. This expansion brings the total facility square footage to exceed 370,000 square feet of dedicated space for production, warehousing, and distribution. This was the second major expansion of their facilities in less than five years.

Products:

The products that we manufacture and market include the following:

Marine: Our marine line consists of polishes, cleaners, protectants and waxes under the Star brite® brand name, enzyme fuel treatment under the Star Tron® brand name, and private label products sold by some of our customers. The marine line also includes motor oils, boat washes, vinyl cleaners, protectants, 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, brush handles, tie-downs and other related marine accessories.

Automotive: We manufacture a line of automotive products under the Star brite® and Star Tron® brand names. The automotive line includes fuel treatments for both gas and diesel engines, motor oils, greases and related items. Our Star Tron® enzyme fuel treatment is designed to eliminate and prevent engine problems associated with fuel containing 10% ethanol (E-10 fuel) including, among other things, fuel degradation, debris in fuel (gum and varnish formation) and ethanol’s propensity to attract water (which can adversely affect octane). Star Tron® fuel treatment also increases fuel economy by cleaning the fuel delivery system and facilitating more complete and uniform combustion. In addition, we produce anti-freeze and windshield washes under the Star brite® brand and under private labels for customers. We also produce automotive polishes, cleaners and other appearance items.

Recreational Vehicle/Power Sports: We market Star Tron® fuel treatment and other specialty products to the recreational-vehicle market, including snow mobiles, all-terrain vehicles and motorcycles. For power sports enthusiasts, Star Tron® provides a viable solution to a number of problems associated with E-10 fuel. Other specialty recreational vehicle/power sports products include cleaners, polishes, detergents, fabric cleaners and protectants, silicone sealants, waterproofers, gasket materials, degreasers, vinyl cleaners and protectants, toilet treatment fluids and anti-freeze/coolant.

Outdoor Power Equipment/ Lawn & Garden: We market Star Tron® as a solution to help rectify a number of operating engine problems associated with E-10 fuel in commercial lawn equipment and other home and garden power equipment.



Disinfectant Group: Our disinfectant group includes chlorine dioxide-based deodorizers, disinfectants and sanitizers, which we sell under the Star brite® and Performacide® brand names, and which our customers sell using private label brands. Star brite® products include NosGUARD mildew odor control bags and boat odor sanitizers. Performacide® products include disinfectants for hard, non-porous surfaces, air care products for deodorizing and products to eliminate mold and mildew. These products are sold in both a gas and liquid form. The U.S. Environmental Protection Agency has accepted labeling for Performacide® used in hard surface applications that claims, among other things, effectiveness as a virucide against a variety of viruses, including HIV-1, Influenza-A, Herpes Simplex-2, Poliovirus-1, norovirus and rotavirus; as a disinfectant against a number of different types of bacteria; and as a sanitizer against certain types of bacteria that cause food borne illnesses. We are directing distribution efforts with respect to our disinfectant group principally towards the marine, automotive, home restoration, pet care and agriculture markets, and to institutions such as schools.

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.

Manufacturing: We produce most of our products at Kinpak's manufacturing facilities in Montgomery, Alabama. In addition, we contract with various third- party manufacturers to manufacture some of our products, which are manufactured to our specifications using our provided formulas. Each third- party manufacturer enters into a confidentiality agreement with us.

We purchase raw materials from a variety of suppliers; all raw materials used in manufacturing are readily available from alternative sources. We design our own packaging and supply our outside manufacturers with the appropriate design or 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 arrangements with any third-party manufacturer are discontinued, we believe that we will be able to locate substitute manufacturing facilities without a substantial adverse effect on our manufacturing and distribution.

Marketing and Significant Customers: Our branded and private label products are sold through national retailers such as Wal-Mart, Tractor Supply, West Marine and Bass Pro Shops. Additionally, we market our products via online retailers such as Amazon. We also sell to national and regional distributors that resell our products to specialized retail outlets. In the case of Performacide® disinfectant/sanitizing products, we sell to both retailers as well as distributors that resell our products, in some cases under private labels, to end users principally in the marine, automotive, home restoration, law enforcement and agriculture markets.

Net sales to each of three customers exceeded 10% of our consolidated net sales, and in the aggregate constituted approximately 43.7% and 41.5% of our consolidated net sales, for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, outstanding accounts receivable balances from our three largest unaffiliated customers aggregated approximately 60.1% and 63.6% of our consolidated accounts receivable, respectively.

We market our products through both internal salesmen and external sales representatives who work on an independent contractor commission basis. Our personnel also participate in sales presentations and trade shows. In addition, we market our brands and products through advertising campaigns in national magazines, on television, on the internet, in newspapers and through product catalogs. Our products are distributed primarily from Kinpak's manufacturing and distribution facility in Montgomery, Alabama. Since 2008, we have participated in a vendor managed inventory program with one major customer. See Note 2 to the consolidated financial statements included in this report for additional information.

Backlog, seasonality, and selling terms: We had no significant backlog of orders at December 31, 2021. We generally do not give customers the right to return products. The majority of our products are non-seasonal and are sold throughout the year. Normal trade terms offered to customers range from 30 to 360 days. However, at times we offer extended payment terms or discount arrangements as purchasing incentives to customers. Historically, these initiatives have not materially affected our overall profit margins.

Competition:

Competition with respect to our principal product lines is described below. The principal elements of competition affecting all of our product lines are brand recognition, price, service and the ability to deliver products on a timely basis.

Marine: We have several national and regional competitors in the marine marketplace. We do not believe that any competitor or small group of competitors hold a dominant market share. We believe that we can increase or maintain our market share through expenditures directed to our present advertising and distribution channels.

Automotive: There are a large number of companies, both national and regional, that compete with us. Many are more established and have greater financial resources than we do. While our market share is small, the total market size is substantial. We seek to maintain and possibly increase our market share through our present advertising and distribution channels.



Recreational Vehicle/Power Sports: We compete with national and regional competitors. We do not believe that any competitor or small group of competitors hold a dominant market share. We believe that we can increase or maintain our market share by utilizing advertising and distribution channels similar to those we use in the marine market.

Outdoor Power Equipment/Lawn & Garden: We compete with several established national and regional competitors. We do not believe that any competitor or small group of competitors hold a dominant market share. We have attempted to make inroads in this market by emphasizing Star Tron®'s unique formulation and by increasing our advertising and attendance at trade shows.

Disinfectant Group: There are a large number of companies that compete with us, many of which are much larger, and have much greater financial resources than we do. We emphasize the effectiveness of chlorine dioxide, coupled with the convenience in application of our products.

Trademarks: We have obtained registered trademarks for Star brite®, Star Tron®, Performacide® and other trade names used on our products. We view our trademarks as significant assets because they provide product recognition. We believe that our trademarks provide protection in the geographic markets we serve, but we cannot assure that our intellectual property rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged.

Patents: We own several patents, the most significant of which relate to a delivery system for use with products containing chlorine dioxide (the "ClO₂ Patents"). In 2021, we were issued a new patent for our ClO₂ delivery system that expires on July 8, 2039. See "Risk Factors - If we do not effectively utilize or successfully assert intellectual property rights, our competitiveness could be materially adversely affected," in Item 1A of this report for additional information.

Governmental Regulation: We believe that the high cost of acquiring federal and state licenses in order to sell chlorine dioxide products provide a high barrier to entry for competitors.

New Product Development: We continue to develop specialized products for the marine, automotive, recreational vehicle/power sports and outdoor power equipment/lawn and garden markets. Expenditures for new product development have not been significant and are charged to operations in the year incurred.

Personnel: At December 31, 2021, we had 195 full-time employees and five part-time employees. The following table provides information regarding personnel working for the Company and its subsidiaries at December 31, 2021:

Location	Description	Number of Employees
Fort Lauderdale, Florida	Administrative, sales, and marketing	44 ¹
Fort Lauderdale, Florida	Manufacturing and distribution	6
Montgomery, Alabama	Manufacturing and distribution	150 ²
		<u>200</u>

1 Includes two part-time employees.

2 Includes three part-time employees.



Item 1A. Risk Factors

If we do not compete effectively, our business will suffer.

We confront aggressive competition in the sale of our products. In each of the markets in which we sell our products, we compete with a number of national and regional competitors. Competition in the automotive market is particularly intense, with many national and regional companies marketing competitive products. Many of our competitors in the automotive market are more established and have greater financial resources than we do. Moreover, we confront intense competition with respect to our Performacide® disinfectant, sanitizing and deodorizing products from a large number of competitors, many of which are well established and have substantially greater financial resources than we do. Our inability to successfully compete in our principal markets would have a material adverse effect on our financial condition, results of operations and cash flows.

Our business is, to a significant extent, dependent on a small number of major customers, and the loss of any of these customers could adversely affect our financial condition, results of operations and cash flows.

Net sales to each of three unaffiliated customers exceeded 10% of our consolidated net sales, and in the aggregate constituted approximately 43.7% and 41.5% of our consolidated net sales, for the years ended December 31, 2021 and 2020, respectively. The loss of any of these customers would have a material adverse effect on our financial condition, results of operations and cash flows.

Our Chairman, President and Chief Executive Officer is a majority shareholder who controls us, and his interests may conflict with or differ from the Company's interests.

Peter G. Dornau, our Chairman, President and Chief Executive Officer, together with a family entity he controls, owns approximately 50.6% of our common stock. As a result, Mr. Dornau has the power to elect all of our directors and effectively has the ability to prevent any transaction that requires the approval of our Board of Directors and our shareholders. Products that we manufacture and that are sold outside of the United States and Canada are purchased from us and distributed by two companies owned by Mr. Dornau, which we refer to as the "affiliated companies." The affiliated companies also collectively own the rights to the Star brite® and Star Tron® trademarks and related products outside of the United States and Canada. Sales to the affiliated companies aggregated approximately \$2,373,000 and \$2,212,000 during the years ended December 31, 2021 and 2020, respectively. In addition, we provided administrative services and advances for business related expenditures to the affiliated companies. During the years ended December 31, 2021 and 2020, fees for administrative services aggregated approximately \$841,000 and \$871,000, respectively, and amounts billed to the affiliated companies to reimburse the Company for business related expenditures made on behalf of the affiliated companies aggregated approximately \$123,000 and \$199,000, respectively. Receivables due from the affiliated companies in connection with product sales, administrative services, and advances for business related expenditures totaled approximately \$1,212,000 and \$1,496,000 at December 31, 2021 and 2020, respectively. The accounts receivable turnover ratio for the year ended December 31, 2021 with respect to sales to the affiliated companies was approximately 2.6 and with respect to administrative services and advances for business related expenditures was approximately 2.2. Management believes that the sales and provision of administrative services to the affiliated companies do not involve more than normal credit risk.

We have entered into other transactions with entities owned by Mr. Dornau. See Notes 4 and 10 to the consolidated financial statements included in this report for additional information.


Economic conditions can adversely affect our business.

We are subject to risks arising from adverse changes in general domestic and global economic conditions, including inflation, labor costs and availability, supply chain problems, recession or economic slowdown and disruption of credit markets, which may impair the ability of our customers to satisfy obligations due to us. In 2020, the world began experiencing an economic slowdown due to restrictions imposed related to the COVID-19 pandemic. We believe that in 2021 the COVID-19 pandemic did not adversely affect our business. However, the pandemic is ongoing and potential economic problems caused by the pandemic and other factors could have a material adverse effect on our business, results of operations, financial condition, cash flows, and stock price.

If we do not effectively utilize or successfully assert intellectual property rights, our competitiveness could be materially adversely affected.

We rely on trademarks and trade names in connection with our products, the most significant of which are Star brite® and Star Tron®. In addition, we own patents we have viewed as providing some degree of competitive support for our Performacide® products. We rely on trademark, trade secret, patent and copyright laws to protect our intellectual property rights. We cannot assure that these intellectual property rights will be effectively utilized or, if necessary, successfully asserted. There is a risk that we will not be able to obtain and perfect our own intellectual property rights, or, where appropriate, license from others intellectual property rights necessary to support new product introductions. Our intellectual property rights, and any additional rights we may obtain in the future,





may be invalidated, circumvented or challenged, and the legal costs necessary to protect our intellectual property rights could be significant. Our failure to perfect or successfully assert intellectual property rights could harm our competitive position and could have a material adverse effect on our financial condition, results of operations and cash flows.

Our business involves the use of chemicals.

At our Kinpak facility we blend various chemicals that can cause explosions or harmful gas to be released. Mishandling of chemicals can potentially result in people being hurt or killed, property damaged, and business interruption.

Environmental matters may cause potential liability risks.

We must comply with various environmental laws and regulations in connection with our operations, including those relating to the handling and disposal of hazardous wastes and the remediation of contamination associated with the use and disposal of hazardous substances. A release of such substances due to accident or intentional act could result in substantial liability to governmental authorities or to third parties. In addition, we are subject to reporting requirements with respect to certain materials we use in our manufacturing operations. It is possible that we could become subject to environmental liabilities in the future that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business, results of operations, financial condition, cash flows, and stock price could in the future be materially adversely affected by the ongoing COVID-19 pandemic.

The COVID-19 pandemic has caused substantial damage to the national and global economies and remains a significant threat. The extent to which COVID-19 might impact our business, results of operations, financial condition, cash flow, and stock price is highly uncertain and will depend on future developments. Such developments may include the geographic spread and duration of the virus, the severity of the disease and the actions that may be taken by various governmental authorities and other third parties in response to the outbreak.

Our global manufacturing facilities remain open, though a range of external factors related to the pandemic that are not within our control, including the potential impact of the pandemic on our workforce, could affect our ability to keep our manufacturing facilities fully operational. Additionally, global or national supply chains may be affected if the pandemic persists for an extended period. Any decline or lower than expected demand in our served markets could diminish demand for our products and services, which would adversely affect our financial condition, results of operations, cash flow, and stock price. Moreover, the COVID-19 pandemic may adversely affect the financial condition of our customers and suppliers in the future or their ability to purchase Company products, may delay customers' purchasing decisions, result in a shift away from discretionary products, and may result in longer payment terms or inability to collect customer payments. These issues may also materially affect our future access to our sources of liquidity, particularly our cash flows from operations, financial condition and ability to consummate future acquisitions.

If significant portions of our workforce are unable to work effectively, including because of illness, quarantines or absenteeism; government actions; facility closures; work slowdowns or stoppages; limited supplies or resources; or other circumstances related to COVID-19, our operations could be impacted. We may be unable to perform fully on our customer obligations and we may incur liabilities and suffer losses as a result.

The duration and intensity of the impact of the COVID-19 pandemic and any resulting disruption to our operations is uncertain but could have a material impact on our operations, cash flows, and financial condition.

Our variable rate indebtedness exposes us to risks related to interest rate fluctuation and matures in August 2024.

We have a revolving line of credit with a variable interest rate. Interest on the revolving line of credit is payable at the one-month LIBOR rate plus 1.35% per annum, computed on a 365/360 basis. At December 31, 2021, we did not have any borrowings outstanding under the revolving line of credit. However, if we borrow amounts under the revolving line of credit in the future, and if interest rates were to increase significantly, our financial condition, results of operations and cash flows could be materially adversely affected.

Weather conditions can adversely affect our sales.

Our sales can be adversely affected by prolonged cold winters which curtail boating activity and by natural disasters such as hurricanes, floods and tornados.

Trading in our common stock has been limited, and our stock price could potentially be subject to substantial fluctuations.

Our common stock is listed on the NASDAQ Capital Market, but trading in our stock has been limited. Our stock price could be affected substantially by a relatively modest volume of transactions.



Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our executive offices and one of our manufacturing facilities are located in Fort Lauderdale, Florida and are leased from an entity controlled by our Chairman, President and Chief Executive Officer. The lease covers approximately 12,700 square feet of office, manufacturing, and warehouse space. The lease expires in December 2023. See Note 4 to the consolidated financial statements included in this report for additional information.

Kinpak leases its Alabama manufacturing facilities from The Industrial Development Board of the City of Montgomery, Alabama (the "IDB"). Kinpak entered into the lease in its current form in connection with an industrial development bond financing related to the Expansion Project; Kinpak's lease payments are used to fund repayment of the IDB's obligations under the bond it issued in connection with the industrial development bond financing. See Note 8 to the consolidated financial statements included in this report for additional information. Kinpak inherited the lease structure when it first acquired its facilities from its predecessor-in-interest in 1996. The lease provides that prior to the maturity date of the bond, Kinpak may repurchase the facilities for \$1,000 if the bond has been redeemed or fully paid. As a result of this Expansion Project, the facilities were expanded to contain approximately 272,000 square feet of office, plant and warehouse space on 23 acres of land. An additional expansion was completed in February of 2022, bringing the total square feet of the manufacturing facilities to exceed 370,000.

Item 3. Legal Proceedings

Not applicable

Item 4. Mine Safety Disclosures

Not applicable.





PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Capital Market under the symbol OBCI.

On December 31, 2021, there were 90 holders of record. We believe that a substantially greater number of holders of our common stock are beneficial owners whose shares are held by brokers and other institutions for the account of the beneficial owners.

During 2021, we paid regular quarterly dividends of \$0.03 per share, however payment of dividends in the future will be subject to the discretion of the Board of Directors in light of numerous factors, including our business performance and operating plans, capital commitments, liquidity and other factors.

Item 6. Reserved

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 which are contained in a separate section of this report, beginning on page F-1.

Overview:

We are engaged in the manufacture, marketing and distribution of a broad line of appearance, performance, and maintenance products for the marine, automotive, power sports, recreational vehicle and outdoor power equipment markets, under the Star brite® and other trademarks within the United States and Canada. In addition, we produce private label formulations of many of our products for various customers and provide custom blending and packaging services for these and other products. We also manufacture, market and distribute a line of products including disinfectants, sanitizers and deodorizers. We sell our products through national retailers and to national and regional distributors. In addition, we sell products to two companies affiliated with Peter G. Dornau, our Chairman, President and Chief Executive Officer; these companies distribute the products outside of the United States and Canada. Transactions with the affiliated companies were made in the ordinary course of business, and management believes that sales to the affiliated companies do not involve more than normal credit risk.

In February of 2022, the Company's wholly owned subsidiary, KINPAK Inc. ("Kinpak") completed an expansion of its manufacturing and distribution facilities by an additional 69,000 square feet on its 23-acre site. This expansion brings the total facility square footage to exceed 370,000 square feet. of dedicated space for production, warehousing, and distribution. This is the second major expansion of their facilities in less than five years.

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Critical accounting estimates:

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

We have identified the following as critical accounting estimates, which are defined as those that are reflective of significant judgments and uncertainties, are the most pervasive and important to the presentation of our financial condition and results of operations and, if subject to different assumptions and conditions, could lead to materially different results.

Collectability of trade accounts receivable

In the ordinary course of business, we grant non-interest-bearing trade credit to our unaffiliated customers on terms that range from 30 to 360 days. In an effort to reduce our credit risk, we perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and aging of receivables, as well as our assessment of our customers' creditworthiness, as determined by our review of credit information relating to the customers. We generally do not require collateral on trade accounts receivable. We maintain an allowance for doubtful accounts based on expected collectability of the trade accounts receivable, after considering our historical collection experience, the length of time an account is outstanding, the financial position of the customer if known and information provided by credit rating services. In addition, we use historical and current information to estimate future credit losses to determine if

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the allowance is adequate. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event we determine a smaller or larger reserve is appropriate, we would record a benefit or charge to selling and administrative expenses in the period in which such a determination was made. The adequacy of this allowance is reviewed each reporting period and adjusted as necessary. Our allowance for doubtful accounts was approximately \$632,000 and \$326,000 at December 31, 2021 and 2020, respectively, which was approximately 6.2% and 3.8% of gross accounts receivable at December 31, 2021 and 2020, respectively. If the financial condition of our customers were to deteriorate, resulting in increased uncertainty as to their ability to make payments, or if unexpected events or significant future changes in trends were to occur, we may be required to increase the allowance or incur a bad debt expense. In this regard, we incurred bad debt expense of approximately \$311,000 and \$197,000 in 2021 and 2020, respectively.

Inventories

Our inventories primarily are composed of raw materials and finished goods and are stated at the lower of cost or net realizable value, using the first-in, first-out method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We maintain a reserve for slow moving and obsolete inventory to reflect the diminution in value resulting from product obsolescence, damage or other issues affecting marketability in an amount equal to the difference between the cost of the inventory and its estimated net realizable value. The adequacy of this reserve is reviewed each reporting period and adjusted as necessary. We regularly compare inventory quantities on hand against historical usage or forecasts related to specific items in order to evaluate obsolescence and excessive quantities. In assessing historical usage, we also qualitatively assess business trends to evaluate the reasonableness of using historical information as an estimate of future usage.

Our slow moving and obsolete inventory reserve was approximately \$315,000 and \$290,000 at December 31, 2021 and 2020, respectively.

Income taxes

We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized to reflect the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured and recorded using currently enacted tax rates, which we expect will apply to taxable income in the years in which the differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases are recovered or settled. The differences are attributable to differing methods of financial statement and income tax treatment with respect to depreciation and reserves for trade accounts receivable and inventories. The likelihood of a material change in our expected realization of deferred tax assets is dependent on, among other factors, changes in tax law, future taxable income and settlements with tax authorities.

In assessing the realizability of our deferred tax assets, we evaluate positive and negative evidence and use judgments regarding past and future events, including operating results and available tax planning strategies that could be implemented to realize the deferred tax assets. We record a valuation allowance when necessary to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. We consider available evidence, both positive and negative, and use judgments regarding past and future events, including operating results and available tax planning strategies, in assessing the need for a valuation allowance.

Significant judgment is required in determining income tax provisions and in evaluating tax positions. We establish additional provisions for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that do not meet the minimum probability threshold, which is a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority. In the normal course of business, we and our subsidiaries are examined by various federal and state tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We adjust the income tax provision, the current tax liability and deferred taxes in any period in which we become aware of facts that necessitate such an adjustment. The ultimate outcomes of the examinations of our income tax returns could result in increases or decreases to our recorded tax liabilities, which would affect our financial results.

Intangible Assets

Intangible assets are acquired assets that lack physical substance and that meet specified criteria for recognition apart from goodwill. We own several trademarks and trade names, including Star brite® and Performacide®. We have determined that these intangible assets have indefinite lives and, therefore, are not amortized. In addition, we own other intangible assets including patents, royalty rights, other trademarks and trade names, customer lists, and product formulas that have finite lives. As these intangible assets have finite lives, their carrying value is amortized over their remaining useful lives. See Note 5 to the consolidated financial statements included in this report for additional information regarding our intangible assets.



We evaluate our indefinite-lived intangible assets for impairment annually and at other times if events or changes in circumstances indicate that an impairment may have occurred. In evaluating our indefinite-lived intangible assets for impairment, we assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If, after completing the qualitative assessment, we determine it is more likely than not that the fair value of the indefinite-lived intangible asset is greater than its carrying amount, the asset is not impaired. If we conclude it is more likely than not that the fair value of the indefinite-lived intangible assets is less than the carrying value, we would then proceed to a quantitative impairment test, which consists of a comparison of the fair value of the intangible assets to their carrying amounts. In 2021, we performed a qualitative assessment on all of our indefinite lived assets and determined, based on the assessment, that their fair values were more likely than not higher than their carrying values.

We assess the remaining useful life and recoverability of intangible assets having finite lives whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Such events or circumstances may include, for example, the occurrence of an adverse change with respect to a product line that utilizes the intangible assets. Significant judgments in this area involve determining whether such an event or circumstance has occurred. Any impairment loss, if indicated, equals the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

Results of Operations:

The following table provides a summary of our financial results for the years ended December 31, 2021 and 2020:

	For The Years Ended December 31,				
			Percent Change	Percentage of Net Sales	
	2021	2020		2021	2020
Net sales	\$ 64,298,595	\$ 55,561,169	15.7%	100.0%	100.0%
Cost of goods sold	40,001,908	32,059,747	24.8%	62.2%	57.7%
Gross profit	24,296,687	23,501,422	3.4%	37.8%	42.3%
Advertising and promotion	4,025,385	2,980,356	35.1%	6.3%	5.4%
Selling and administrative	9,412,437	8,357,504	12.6%	14.6%	15.0%
Operating income	10,858,865	12,163,562	(10.7)%	16.9%	21.9%
Interest (expense), net	(148,580)	(132,466)	12.2%	0.2%	0.2%
Gain on insurance settlement	-	201,210	N/A	N/A	0.4%
Provision for income taxes	(2,306,317)	(2,615,623)	(11.8)%	3.6%	4.7%
Net income	<u>\$ 8,403,968</u>	<u>\$ 9,616,683</u>	<u>(12.6)%</u>	<u>13.1%</u>	<u>17.3%</u>

Net sales increased by approximately \$8,737,000, or 15.7%, during 2021 as compared to 2020. The increase in net sales was principally a result of increased sales of Star brite® branded marine products, private label marine products, and winterizing products, partially offset by a decrease in sales of chlorine dioxide-based products (Performacide® and private label).


Cost of goods sold increased by approximately \$7,942,000 or 24.8% in 2021, as compared to 2020. The increase in cost of goods sold was a result of higher sales volume, the mix of products sold described above, higher raw materials, freight imported to our warehouses and to our customers and other manufacturing costs.

Gross profit increased by approximately \$795,000, or 3.4%, in 2021 as compared to 2020. The increase in gross profit was a result of increased sales volume, partially offset by the higher costs described above. As a percentage of net sales, gross profit decreased to 37.8% in 2021 from 42.3% in 2020, primarily because of a less profitable sales mix.

Advertising and promotion expenses increased by approximately \$1,045,000, or 35.1%, during 2021 as compared to 2020. As a percentage of net sales, advertising and promotion expense increased to 6.3% in 2021 from 5.4% in 2020. The increase in advertising and promotion expenses was principally a result of increased internet and television advertising, and trade show expenses as a result of the easing of travel and social distancing restrictions implemented in 2020 due to the COVID-19 pandemic.

Selling and administrative expenses increased by approximately \$1,055,000, or 12.6%, during 2021 as compared to 2020. The increase in selling and administrative expenses was primarily a result of increased sales commissions and higher employee compensation expenses, increased insurance expenses, product testing, and a non-cash adjustment to increase our trade receivables allowance account. As a percentage of net sales, selling and administrative expenses decreased to 14.6% in 2021 from 15.0% in 2020.

Interest (expense), net during 2021 increased by approximately \$16,000, or 12.2%, as compared to 2020.



Gain on insurance settlement was approximately \$201,000 during the year ended December 31, 2020. We received a check for approximately \$412,000 from our insurance company to cover losses from a chemical incident at our Kinpak facility that took place in December 2019.

Provision for income taxes decreased by approximately \$309,000 or 11.8% in 2021, as compared to 2020. The decrease was principally a result of lower income before income taxes. As a percentage of income before income taxes our provision for income taxes increased to 21.5% in 2021 from 21.4% in 2020.

Liquidity and Capital Resources:

Our cash balance was approximately \$12,685,000 at December 31, 2021 as compared to approximately \$11,124,000 at December 31, 2020. In addition, we had restricted cash of approximately \$477,000 at December 31, 2020. The restricted cash constituted amounts held in a custodial account that were used to fund additional capital expenditures in connection with the 2017 Expansion Project which is now complete.

The following table summarizes our cash flows for the years ended December 31, 2021 and 2020:

	Years Ended December 31,	
	2021	2020
Net cash provided by operating activities	\$ 5,505,697	\$ 6,207,205
Net cash used in investing activities	(7,442,783)	(1,350,099)
Net cash provided by (used in) financing activities	3,020,856	(1,267,090)
Effect of exchange rate fluctuations on cash	13	716
Net increase in cash and restricted cash	<u>\$ 1,083,783</u>	<u>\$ 3,590,732</u>

Net cash provided by operating activities during 2021 decreased by approximately \$702,000 or 11.3%, as compared to 2020. The decrease in cash provided by operating activities was principally a result of the approximately \$1,213,000 decrease in the Company's net income, partially offset by a \$541,000 increase in non-cash expenses. Changes in working capital accounted for approximately \$30,000 more in cash used during 2021 as compared to 2020.

Inventories, net were approximately \$16,819,000 and \$13,176,000 at December 31, 2021 and 2020, respectively, representing an increase of approximately \$3,643,000, or 27.7%, in 2021. We believe the higher levels of inventories were necessary in order to reduce potential supply chain problems and price increases.

Inventories, net were approximately \$16,819,000 and \$13,176,000 at December 31, 2021 and 2020, respectively, representing an increase of approximately \$3,643,000, or 27.7%, in 2021. We believe the higher levels of inventories were necessary in order to reduce potential supply chain problems and material price increases.

Net cash used in investing activities during 2021 increased by approximately \$6,093,000, or 451.3%, as compared to 2020. The increase in cash used in investing activities was principally due to Kinpak's expansion project. Additionally, the Company received insurance proceeds (see Results of Operations) of approximately \$412,000 during the year ended December 31, 2020.

Net cash provided by financing activities during 2021 was approximately \$3,021,000, as compared to net cash used in financing activities of approximately \$1,267,000 for the year ended December 31, 2020. During the year ended December 31, 2021, the Company received proceeds of approximately \$4,990,000 from a term loan related to the expansion at Kinpak (see Note 8). In the year ended December 31, 2021, the Company paid dividends to common shareholders aggregating approximately \$1,139,000 and made payments on long term debt of approximately \$753,000, as compared to dividends paid to common shareholders aggregating approximately \$757,000 and payments on long term debt of approximately \$510,000 in the year ended December 31, 2020.

See Notes 6 and 8 to the consolidated financial statements included in this report for information concerning our principal credit facilities, consisting of Kinpak's obligations relating to a term loan, the payment of which we have guaranteed, an industrial development bond financing, the payment of which we have guaranteed and a revolving line of credit. At December 31, 2021 and 2020, we had outstanding balances of approximately \$4,888,000 and \$0, respectively, under Kinpak's obligation relating to the term loan and of \$3,334,000 and \$3,719,000, respectively, under Kinpak's obligations relating to the industrial development bond financing, and no borrowings under our revolving credit facility.

The loan agreement pertaining to our revolving credit facility, as amended, has a stated term that expires on August 30, 2024, although as was the case with earlier revolving lines of credit provided to us in recent years, amounts outstanding are payable on demand. Nevertheless, the loan agreement pertaining to our revolving line of credit contains various covenants, including financial covenants that are described in Note 6 to the consolidated financial statements included in this report. At December 31, 2021, we were in

compliance with these financial covenants. The revolving credit facility is subject to several events of default, including a decline of the majority shareholder's ownership below 50% of our outstanding shares.

Our guarantee of Kinpak's obligations related to the industrial development bond financing are subject to various covenants, including financial covenants that are described in Note 8 to the consolidated financial statements included in this report. As of December 31, 2021, we were in compliance with these financial covenants.

In connection with our 2018 acquisition of assets of Snappy Marine, we issued a promissory note in the amount of \$1,000,000, including interest (of the \$1,000,000 amount of the promissory note, \$930,528 was recorded as principal, and the remaining \$69,472, representing an imputed interest rate of 2.87% per annum, is being recorded as interest expense over the term of the note). At December 31, 2021, we had an outstanding balance of \$316,667 under the promissory note (including \$309,218 recorded as principal and \$7,449 to be recorded as interest expense over the remaining term of the note). We also obtained financing through leases for office equipment, totaling approximately \$79,000 and \$100,000 at December 31, 2021 and 2020, respectively.

Some of our assets and liabilities are denominated in Canadian dollars and are subject to currency exchange rate fluctuations. We do not engage in currency hedging and address currency risk as a pricing issue. In 2021, we recorded \$1,988 in foreign currency translation adjustments, which resulted in a corresponding increase in shareholders' equity. In 2020, we recorded \$167 in foreign currency translation adjustments, which resulted in a corresponding increase in shareholders' equity.

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

During the past few years, we have introduced a number of new products. At times, new product introductions have required us to increase our overall inventory and have resulted in lower inventory turnover rates. The effects of reduced inventory turnover have not been material to our overall operations.

We believe that funds provided through operations, our revolving line of credit, and other sources of financing will be sufficient to satisfy our cash requirements over at least the next twelve months. Although amounts outstanding under our revolving line of credit facility are payable on demand, based on our experience with respect to previous revolving line of credit facilities with the same bank that is providing our current revolving line of credit facility, we anticipate that we will be able to maintain borrowings, if any, under the current revolving line of credit facility until the end of its stated term.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The audited consolidated financial statements of the Company required pursuant to this Item 8 are included in a separate section commencing on page F-1 and are incorporated herein by reference.

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

Not applicable.

Item 9A. Controls and Procedures:

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



Change in Internal Controls over Financial Reporting. No change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Annual Report on Internal Control over Financial Reporting

Management of Ocean Bio-Chem, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated the Company’s internal control over financial reporting as of December 31, 2021. In making this assessment, management used the framework established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that, as of December 31, 2021, the Company’s internal control over financial reporting was effective.

Item 9B. Other Information

Not applicable.

Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

Not applicable.





PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission no later than 120 days after the close of the fiscal year covered by this report.

Item 11. Executive Compensation

Information required by this item is incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission no later than 120 days after the close of the fiscal year covered by this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission no later than 120 days after the close of the fiscal year covered by this report.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission no later than 120 days after the close of the fiscal year covered by this report.

Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission no later than 120 days after the close of the fiscal year covered by this report.



PART IV


Item 15. Exhibits, Financial Statement Schedules

- (a) Financial Statements – See the Index to Consolidated Financial Statements on page F-1.
- (b) Exhibits:

Unless otherwise noted, the file number of each referenced filing is 0-11102.

Exhibit No.

- | | |
|---------|--|
| 3.1.1 | Articles of Incorporation and amendments through May 20, 1994 (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010). |
| 3.1.2 | Articles of Amendment to the Articles of Incorporation, as filed on June 13, 2012 (incorporated by reference to Exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012). |
| 3.2 | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 5, 2011). |
| 4 | Description of Common Stock (incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019). |
| 10.1.1 | Credit Agreement dated July 20, 2021, between Kinpak and Regions (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021). |
| 10.1.2 | Guaranty Agreement dated July 20, 2021, provided by the Company to Regions (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021). |
| 10.1.3 | Business Loan Agreement effective July 30, 2021 between the Company and Regions (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021). |
| 10.1.4 | Commercial Security Agreement dated July 30, 2021 between the Company and Regions (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021). |
| †10.2 | Ocean Bio-Chem, Inc. 2015 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 12, 2016). |
| 10.3.1 | Form of Industrial Development Revenue Bond (Kinpak Inc. Project) Series 2017 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 2, 2017). |
| 10.3.2 | Second Restated Lease Agreement, dated as of September 1, 2017, between The Industrial Development Board of the City of Montgomery and KINPAK, Inc. (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 2, 2017). |
| 10.3.3 | Mortgage, Security Agreement and Assignment of Rents and Leases, dated as of September 1, 2017, provided by The Industrial Development Board of the City of Montgomery and KINPAK, Inc. (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 2, 2017). |
| 10.3.4 | Guaranty Agreement, dated as of September 1, 2017, provided by Ocean Bio-Chem, Inc. and its consolidated subsidiaries party thereto (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 2, 2017). |
| †10.4 | Ocean Bio-Chem, Inc. 2008 Non-Qualified Stock Option Plan, as amended (incorporated by reference to Exhibit 99.5 to the Company's Registration Statement on Form S-8 (File No. 333-176268), filed with the Securities and Exchange Commission on August 12, 2011). |
| 10.5.1 | Net Lease, dated May 1, 1998, between Star Brite Distributing, Inc. and PEJE, Inc (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004). |
| 10.5.2 | Renewal of Lease, dated May 1, 2008, between Star Brite Distributing, Inc. and PEJE, Inc. (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008). |
| 10.5.3 | Amendment Number Two to Net Lease, dated May 16, 2013, between Star Brite Distributing, Inc. and PEJE, Inc. (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013). |
| *21 | List of Subsidiaries |
| *31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act. |
| *31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act. |
| *32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act and 18 U.S.C. Section 1350. |
| *32.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act and 18 U.S.C. Section 1350. |
| 101.INS | XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |



101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File—the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

* Filed herewith.

† Constitutes management contract or compensatory plan or arrangement required to be filed as in exhibit to this report.

Item 16. Form 10-K Summary

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. The Company has elected not to include a summary.



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, thereunto duly authorized.

OCEAN BIO-CHEM, INC.

Date: March 31, 2022

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

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.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Peter G. Dornau</u> Peter G. Dornau	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 31, 2022
<u>/s/Jeffrey S. Barocas</u> Jeffrey S. Barocas	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2022
<u>/s/ Diana M. Conard</u> Diana M. Conard	Director	March 31, 2022
<u>/s/ Gregor M. Dornau</u> Gregor M. Dornau	Director	March 31, 2022
<u>/s/ William W. Dudman</u> William W. Dudman	Director	March 31, 2022
<u>/s/ James M. Kolisch</u> James M. Kolisch	Director	March 31, 2022
<u>/s/ Kimberly A. Krause</u> Kimberly A. Krause	Director	March 31, 2022
<u>/s/ John B. Turner</u> John B. Turner	Director	March 31, 2022



OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ocean Bio-Chem, Inc. (the Company) as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue

As described in Note 1 to the Company's consolidated financial statements, the Company recognizes revenue upon transfer of control of promised products to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products. The Company also offers sales allowances to certain customers, which are recorded as a reduction of net sales. In addition, the allowances for doubtful accounts are based on expected collectability of the trade accounts receivable, after considering the Company's historical collection experience, the length of time an account is outstanding, the financial position of the customer, if known, and information provided by credit rating services.

We identified the Company's estimate of the allowance for doubtful accounts and accrual for the sales allowances as critical audit matters. The principal considerations for our determination of these critical audit matters related to the high degree of subjectivity in the

Company's judgments in determining the qualitative factors. Auditing these judgments and assumptions by the Company involves auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

The primary procedures we performed to address these critical audit matters included the following:

- We selected a sample of customer agreements and performed the following procedures:
 - Obtained and read sales allowance agreements for each selection.
 - Tested management's identification and treatment of contract terms.
 - Assessed the terms in the customer agreement and evaluated the appropriateness of management's application of their accounting policies, along with their use of estimates, in the determination of revenue recognition conclusions.
- We evaluated the reasonableness of management's estimate of the sales allowances included within accrued expenses payable on the consolidated balance sheets.
- We evaluated the relevance and the reasonableness of assumptions related to the evaluation of the allowance for doubtful accounts, current economic conditions, and other risk factors used in development of the qualitative factors by comparing these data points to audit evidence gathered.

Accu Audit & Compliance, PA

We have served as the Company's auditor since 2018.

Tampa, Florida
March 31, 2022

4806 West Gandy Boulevard • Tampa, Florida 33611 • 813.440.6380

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash	\$ 12,684,935	\$ 11,123,726
Trade accounts receivable less allowances of approximately \$632,000 and \$326,000, respectively	9,544,133	8,326,939
Receivables due from affiliated companies	1,211,999	1,496,104
Restricted cash	-	477,426
Inventories, net	16,819,253	13,175,756
Prepaid expenses and other current assets	2,093,971	1,259,786
Total Current Assets	<u>42,354,291</u>	<u>35,859,737</u>
Property, plant and equipment, net	16,360,218	10,101,962
Operating lease – right to use	182,543	268,920
Intangible assets, net	1,380,652	1,665,299
Total Assets	<u>\$ 60,277,704</u>	<u>\$ 47,895,918</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt, net	\$ 736,531	\$ 500,694
Current portion of operating lease liability	89,600	86,377
Accounts payable - trade	2,877,623	1,966,010
Income taxes payable	45,295	-
Accrued expenses payable	900,982	1,142,825
Total Current Liabilities	<u>4,650,031</u>	<u>3,695,906</u>
Deferred tax liability	347,723	380,218
Operating lease liability, less current portion	92,943	182,543
Long-term debt, less current portion and debt issuance costs	7,750,889	3,730,180
Total Liabilities	<u>12,841,586</u>	<u>7,988,847</u>
COMMITMENTS AND CONTINGENCIES		
Shareholders' Equity:		
Common stock - \$.01 par value, 12,000,000 shares authorized; 9,503,999 shares and 9,481,799 shares issued and outstanding, respectively	95,040	94,818
Additional paid in capital	11,077,706	10,816,100
Accumulated other comprehensive loss	(292,336)	(294,324)
Retained earnings	36,555,708	29,290,477
Total Shareholders' Equity	<u>47,436,118</u>	<u>39,907,071</u>
Total Liabilities and Shareholders' Equity	<u>\$ 60,277,704</u>	<u>\$ 47,895,918</u>

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

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Net sales	\$ 64,298,595	\$ 55,561,169
Cost of goods sold	<u>40,001,908</u>	<u>32,059,747</u>
Gross profit	24,296,687	23,501,422
Operating Expenses:		
Advertising and promotion	4,025,385	2,980,356
Selling and administrative	<u>9,412,437</u>	<u>8,357,504</u>
Total operating expenses	13,437,822	11,337,860
Operating income	10,858,865	12,163,562
Other income (expense)		
Interest (expense), net	(148,580)	(132,466)
Gain on insurance settlement	<u>-</u>	<u>201,210</u>
Income before income taxes	10,710,285	12,232,306
Provision for income taxes	<u>(2,306,317)</u>	<u>(2,615,623)</u>
Net income	<u>\$ 8,403,968</u>	<u>\$ 9,616,683</u>
Earnings per common share – basic and diluted	<u>\$ 0.89</u>	<u>\$ 1.02</u>
Dividends declared per common share	<u>\$ 0.12</u>	<u>\$ 0.08</u>

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



OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ 8,403,968	\$ 9,616,683
Foreign currency translation adjustment	<u>1,988</u>	<u>167</u>
Comprehensive income	<u>\$ 8,405,956</u>	<u>\$ 9,616,850</u>

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



OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount				
January 1, 2020	9,442,809	\$ 94,428	\$ 10,503,171	\$ (294,491)	\$ 20,431,156	\$ 30,734,264
Net income	-	-	-	-	9,616,683	9,616,683
Dividends, common stock	-	-	-	-	(757,362)	(757,362)
Options exercised	15,296	153	20,547	-	-	20,700
Stock based compensation	25,150	252	312,358	-	-	312,610
Shares withheld in consideration of employee tax obligations related to stock-based compensation	(1,456)	(15)	(19,976)	-	-	(19,991)
Foreign currency translation adjustment	-	-	-	167	-	167
December 31, 2020	9,481,799	\$ 94,818	\$ 10,816,100	\$ (294,324)	\$ 29,290,477	\$ 39,907,071
Net income	-	-	-	-	8,403,968	8,403,968
Dividends, common stock	-	-	-	-	(1,138,737)	(1,138,737)
Common stock repurchased and retired	(4,500)	(45)	(39,067)	-	-	(39,112)
Stock based compensation	36,600	366	407,494	-	-	407,860
Portion of stock based compensation for shares to be issued in 2022	(6,400)	(64)	(69,056)	-	-	(69,120)
Shares withheld in consideration of employee tax obligations related to stock-based compensation	(3,500)	(35)	(37,765)	-	-	(37,800)
Foreign currency translation adjustment	-	-	-	1,988	-	1,988
December 31, 2021	9,503,999	\$ 95,040	\$ 11,077,706	\$ (292,336)	\$ 36,555,708	\$ 47,436,118

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

OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 8,403,968	\$ 9,616,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,489,215	1,373,337
Deferred income taxes	(32,495)	68,844
Stock based compensation	407,860	312,610
Provision for bad debts	311,123	196,887
Provision for slow moving and obsolete inventory	24,450	46,175
Impairment of equipment	-	65,725
Other operating non-cash items	1,975	(549)
Cash used related to 2019 chemical incident	-	(200,665)
Gain on insurance settlement	-	(201,210)
Changes in assets and liabilities:		
Trade accounts receivable	(1,528,317)	(1,389,520)
Receivables due from affiliated companies	284,105	(536,000)
Inventories	(3,667,947)	(3,666,860)
Prepaid expenses and other current assets	(834,185)	(324,764)
Accounts payable – trade	911,613	918,625
Income taxes payable	45,295	-
Accrued expenses payable	(310,963)	(72,113)
Net cash provided by operating activities	<u>5,505,697</u>	<u>6,207,205</u>
Cash flows from investing activities:		
Insurance proceeds received for damaged machinery and equipment	-	486,657
Purchases of property, plant and equipment	(7,442,783)	(1,836,756)
Net cash used in investing activities	<u>(7,442,783)</u>	<u>(1,350,099)</u>
Cash flows from financing activities:		
Payments on long term debt	(753,284)	(510,437)
Proceeds from long term debt	4,989,789	-
Payments for taxes related to net share settlements of stock awards	(37,800)	(19,991)
Proceeds from CARES Act note	-	1,556,800
Repayment of CARES Act note	-	(1,556,800)
Dividends paid to common shareholders	(1,138,737)	(757,362)
Repurchase of common stock	(39,112)	-
Proceeds from exercise of stock options	-	20,700
Net cash provided by (used in) financing activities	<u>3,020,856</u>	<u>(1,267,090)</u>
Effect of exchange rate on cash	13	716
Net increase in cash and restricted cash	1,083,783	3,590,732
Cash and restricted cash at beginning of period	11,601,152	8,010,420
Cash and restricted cash at end of period	<u>\$ 12,684,935</u>	<u>\$ 11,601,152</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest during period	<u>\$ 125,432</u>	<u>\$ 141,021</u>
Cash paid for income taxes during period	<u>\$ 2,256,938</u>	<u>\$ 2,627,384</u>
Finance lease right to use assets exchanged for finance lease liabilities	\$ -	\$ 96,039
Cash paid under operating lease	<u>\$ 94,800</u>	<u>\$ 94,800</u>



Cash	\$ 12,684,935	\$ 11,123,726
Restricted cash	-	477,426
Total cash and restricted cash	<u>\$ 12,684,935</u>	<u>\$ 11,601,152</u>

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





OCEAN BIO-CHEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – The Company was incorporated in November 1973 under the laws of the state of Florida and manufactures, markets and distributes products, principally under the Star brite® and Star Tron® brand names, for the marine, automotive, power sports, recreational vehicle and outdoor power equipment markets in the United States and Canada. In addition, the Company produces private label formulations of many of its products for various customers and provides custom blending and packaging services for these and other products. The Company also manufactures disinfectants, sanitizers and deodorizers under the Performacide® and Star brite® brand names.

Basis of presentation and consolidation – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). 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 – The Company recognizes revenue based on Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*” (Topic 606). Under ASU 2014-09, revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines that the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to in exchange for the promised goods or services. Under ASU 2014-09, the Company’s performance obligation to its customers under agreements currently in force is satisfied when the goods are shipped or picked up by the customer and title of the goods is transferred (generally upon such shipment or pick up); with regard to a customer for which the Company’s inventory is held at the customer’s warehouses, the Company’s performance obligation is deemed satisfied when the Company is notified of sales by the customer. Sales allowances provided by the Company to customers are recorded as a reduction of net sales.

Leases - The Company accounts for leases based on ASU 2016-02, “*Leases*” (Topic 842). Based on this standard, the Company determines if an agreement is a lease at inception. Operating leases are included in operating lease – right to use, current portion of operating lease liability, and operating lease liability, less current portion in the Company’s consolidated balance sheets. Finance leases are included in property, plant, and equipment, net, current portion of long-term debt, net and long-term debt, less current portion and debt issuance costs in the Company’s consolidated balance sheets.

As permitted under ASU 2016-02, the Company has made an accounting policy election not to apply the recognition provisions of ASU 2016-02 to short term leases (leases with a lease term of 12 months or less that do not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise); instead, the Company will recognize the lease payments for short term leases on a straight-line basis over the lease term. The Company did not have any short- term leases at December 31, 2021 and 2020.

Collectability of accounts receivable – Trade accounts receivable at December 31, 2021 and 2020 are net of allowances for doubtful accounts aggregating approximately \$632,000 and \$326,000, respectively. Such amounts are based on expected collectability of the trade accounts receivable, after considering the Company’s historical collection experience, the length of time an account is outstanding, the financial position of the customer, if known, and information provided by credit rating services. In addition, we use historical and current information to estimate future credit losses to determine if the allowance is adequate. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event we determine a smaller or larger reserve is appropriate, we would record a benefit or charge to selling and administrative expenses in the period in which such a determination was made. During the years ended December 31, 2021 and 2020, the Company recorded bad debt expense of approximately \$311,000 and \$197,000, 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 net realizable value. We maintain a reserve for slow moving and obsolete inventory to reflect the diminution in value resulting from product obsolescence, damage or other issues affecting marketability in an amount equal to the difference between the cost of the inventory and its estimated net realizable value. The adequacy of this reserve is reviewed each reporting period and adjusted as necessary. We regularly compare inventory quantities on hand against historical usage or forecasts related to specific items in order to evaluate obsolescence and excessive quantities. In assessing historical usage, we also qualitatively assess business trends to evaluate the reasonableness of using historical information as an estimate of future usage.

Shipping and handling costs – All shipping and handling costs incurred by the Company are included in cost of goods sold in the consolidated statements of operations. Shipping and handling costs totaled approximately \$2,287,000 and \$1,456,000 for the years ended December 31, 2021 and 2020, respectively.

Advertising and promotion expense – Advertising and promotion expense consists of advertising costs and marketing expenses, including catalog costs and expenses relating to participation at trade shows. Advertising costs are expensed in the period in which the advertising occurs and totaled approximately \$4,025,000 and \$2,980,000 in 2021 and 2020, respectively.

Property, plant and equipment – Property, plant and equipment is stated at cost, net of depreciation. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. Depreciation expense totaled \$1,184,445 (of which \$1,086,183 is included in cost of goods sold and \$98,262 is included in selling and administrative expenses) and \$1,069,073 (of which \$970,221 is included in cost of goods sold and \$98,852 is included in selling and administrative expenses) for the years ended December 31, 2021 and 2020, respectively.

Research and development costs – Research and development costs are expensed as incurred and recorded in selling and administrative expenses in the consolidated statements of operations. The Company incurred approximately \$55,000 and \$54,000 of research and development costs for the years ended December 31, 2021 and 2020, respectively.

Stock based compensation – The Company records stock-based compensation in accordance with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718, “*Accounting for Stock Compensation*,” which establishes accounting standards for transactions in which an entity exchanges its equity instruments for goods or services. In accordance with guidance provided under ASC Topic 718, the Company recognizes an expense for the fair value of its stock awards at the time of grant and the fair value of its outstanding stock options as they vest, whether held by employees or others. At December 31, 2021, the Company had no outstanding stock options.

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of cash – During the years ended and at December 31, 2021 and 2020, 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 – ASC Topic 820, “*Fair Value Measurements and Disclosures*” defines “fair value” as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC Topic 820 also sets forth a valuation hierarchy of the inputs (assumptions that market participants would use in pricing an asset or liability) used to measure fair value. The hierarchy prioritizes the three levels of inputs as follows:

Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2: Inputs that include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data through correlation or other means.

Level 3: Inputs that are generally unobservable. These inputs may be used with internally developed data in connection with fair value measurements.

The carrying amounts of the Company’s short-term financial instruments, including cash, accounts receivable, accounts payable, certain accrued expenses and revolving line of credit, 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; the carrying amount of the long-term debt approximates fair value.

Impairment of long-lived assets – Potential impairments of long-lived assets are reviewed when events or changes in circumstances indicate a potential impairment may exist. In accordance with ASC Subtopic 360-10, “*Property, Plant and Equipment – Overall*,” 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 records income taxes under the asset and liability method. Under this method, the Company recognizes deferred income tax assets and liabilities for the expected future consequences attributable to temporary differences between the financial reporting and tax bases of assets and liabilities. These differences are measured using tax rates that are expected to apply to taxable income in the years in which those temporary differences are recovered or settled. The Company recognizes in the consolidated statements of operations the effect on deferred income taxes of a change in tax rates in the period in which the change is enacted.

The Company records a valuation allowance when necessary to reduce its deferred tax assets to the net amount that the Company believes is more likely than not to be realized. The Company considers available evidence, both positive and negative, and use judgments regarding past and future events, including operating results and available tax planning strategies, in assessing the need for a valuation allowance.

The Company recognizes tax benefits from uncertain tax positions only if the Company believes that it is more likely than not that the tax positions will be sustained on examination by the taxing authorities based on the technical merits of the positions; otherwise, the Company establishes reserves for uncertain tax positions. The Company adjusts reserves with respect to uncertain tax positions to address developments related to these positions, such as the closing of a tax audit, the expiration of a statute of limitations or the refinement of an estimate. The provision for income taxes includes any reserves with respect to uncertain tax positions that are considered appropriate, as well as the related net interest and penalties. The Company has no uncertain tax positions as of December 31, 2021.

Intangible assets – The Company’s intangible assets consist of trademarks, trade names, customer lists, product formulas, patents and royalty rights. At December 31, 2021, The Company had intangible assets with a net book value of approximately \$1,381,000, of which approximately \$799,000 have finite lives and approximately \$582,000 have indefinite lives. The Company amortizes intangible assets with finite lives over the shorter of their estimated useful or legal life. The useful life is reevaluated for each reporting period. The Company evaluates intangible assets with finite and indefinite lives for impairment at least annually or when events or changes in circumstances indicate that an impairment may exist. The Company determined that none of its intangible assets were impaired in 2021 or 2020.

Foreign currency translation – Assets and liabilities of the Company’s Canadian subsidiary are translated from Canadian dollars to United States dollars at exchange rates in effect at the balance sheet date. Income and expenses are translated at average exchange rates during the year. The translation adjustments for the reporting period are included in the Company’s consolidated statements of comprehensive income, and the cumulative effect of these adjustments are reported in the Company’s consolidated balance sheets as accumulated other comprehensive loss within Shareholders’ Equity.

Earnings per share – Basic earnings per share are computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed assuming the exercise of dilutive stock options under the treasury stock method. See Note 13.

Note 2 – Inventories

The composition of the Company’s inventories at December 31, 2021 and 2020 are as follows:

	2021	2020
Raw materials	\$ 7,465,011	\$ 5,393,961
Finished goods	9,669,073	8,072,176
Inventories, gross	17,134,084	13,466,137
Inventory reserves	(314,831)	(290,381)
Inventories, net	<u>\$ 16,819,253</u>	<u>\$ 13,175,756</u>

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

The Company operates a vendor managed inventory program with one of its customers to improve the promotion of the Company’s products. The Company manages the inventory levels at this customer’s warehouses and recognizes revenue as the products are sold by the customer. The inventories managed at the customer’s warehouses, which are included in inventories, net, amounted to approximately \$1,051,000 and \$629,000 at December 31, 2021 and 2020, respectively.

Note 3 – Property, Plant and Equipment

The Company’s property, plant and equipment at December 31, 2021 and 2020 consisted of the following:

	<u>Estimated Useful Life</u>	<u>2021</u>	<u>2020</u>
Land		\$ 278,325	\$ 278,325
Building and Improvements	30 years	9,710,244	9,563,406
Manufacturing and warehouse equipment	6-20 years	12,858,638	11,959,563
Office equipment and furniture	3-5 years	1,805,002	1,880,387
Leasehold improvements	10-15 years	587,183	587,183
Finance leases – right to use	5 years	113,741	113,741
Vehicles	3 years	10,020	10,020
Construction in process ⁽¹⁾		<u>6,633,112</u>	<u>464,203</u>
Property, plant and equipment, gross		31,996,265	24,856,828
Less accumulated depreciation		<u>(15,636,047)</u>	<u>(14,754,866)</u>
Property, plant and equipment, net		<u>\$ 16,360,218</u>	<u>\$ 10,101,962</u>

(1) The Company's wholly owned subsidiary, KINPAK Inc. ("Kinpak") is near completion of an expansion of its manufacturing and distribution facilities by an additional 69,000 square feet. on its 23-acre site. This planned expansion will bring the total facility square footage to exceed 370,000 square feet. of dedicated space for production, warehousing, and distribution. This is the second major expansion of their facilities in less than five years. The Company expects the expansion to be completed during the first half of 2022, although it may be delayed due to supply chain issues.

Note 4 – Leases

The Company has one operating lease and two finance leases.

Under the operating lease, the Company leases its executive offices and warehouse facilities in Fort Lauderdale, Florida from an entity controlled by Peter G. Dornau, the Company's Chairman, President and Chief Executive Officer. The lease, as extended, expires on December 31, 2023. The lease requires an annual minimum base rent of \$94,800 and provides for a maximum annual 2% increase in subsequent years, although the entity has not raised the minimum base rent since the Company entered into a previous lease agreement in 1998. Additionally, the leasing entity is entitled to reimbursement of all taxes, assessments, and any other expenses that arise from ownership. Each of the parties to the lease has agreed to review the terms of the lease every three years at the request of the other party. Operating lease expense was approximately \$97,000 and \$98,000 for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the Company had a right to use asset and a corresponding liability of \$182,543 and \$268,920, respectively related to the operating lease. Set forth below is a schedule of future minimum rent payments under the operating lease.

Years ending December 31,	
2022	\$ 94,800
2023	94,800
Total future minimum lease payments	<u>189,600</u>
Less imputed interest	<u>(7,057)</u>
Total operating lease liability	<u>\$ 182,543</u>

The Company's two finance leases relate to office equipment. See Note 3 for information regarding the Company's finance lease right to use assets and Note 8 for information regarding the finance lease payment schedule.

Costs incurred with respect to the Company's leases during 2021 and 2020 are set forth below.

	<u>2021</u>	<u>2020</u>
Operating lease expense	\$ 97,356	\$ 98,086
Finance lease amortization	21,161	22,167
Finance lease interest	1,589	1,137
Total lease expense	<u>\$ 120,106</u>	<u>\$ 121,390</u>

The remaining lease term with respect to the operating lease, weighted average remaining lease term with respect to the finance leases and discount rate with respect to the operating lease and finance leases at December 31, 2021 and 2020 are set forth below:

	December 31, 2021
Remaining lease term – operating lease	2.0 years
Weighted average remaining lease term – finance leases	3.7 years
Discount rate – operating lease	3.7%
Weighted average discount rate – finance leases	1.8%

	December 31, 2020
Remaining lease term – operating lease	3.0 years
Weighted average remaining lease term – finance leases	4.6 years
Discount rate – operating lease	3.7%
Weighted average discount rate – finance leases	1.8%

Note 5 – Intangible Assets

The Company’s intangible assets at December 31, 2021 and 2020 consisted of the following:

December 31, 2021

Intangible Assets	Cost	Accumulated Amortization	Net
Patents	\$ 622,733	\$ 596,980	\$ 25,753
Trade names and trademarks	1,715,325	665,440	1,049,885
Customer list	584,468	387,105	197,363
Product formulas	292,234	193,554	98,680
Royalty rights	160,000	151,029	8,971
Total intangible assets	<u>\$ 3,374,760</u>	<u>\$ 1,994,108</u>	<u>\$ 1,380,652</u>

December 31, 2020

Intangible Assets	Cost	Accumulated Amortization	Net
Patents	\$ 622,733	\$ 544,644	\$ 78,089
Trade names and trademarks	1,715,325	626,413	1,088,912
Customer list	584,468	270,212	314,256
Product formulas	292,234	135,107	157,127
Royalty rights	160,000	133,085	26,915
Total intangible assets	<u>\$ 3,374,760</u>	<u>\$ 1,709,461</u>	<u>\$ 1,665,299</u>

Amortization expense related to intangible assets aggregated \$284,647 and \$284,648 for the years ended December 31, 2021 and 2020, respectively.

Note 6 – Revolving Line of Credit

On August 6, 2021, the Company and Regions Bank (“the “Lender”) entered into a Business Loan Agreement (the “Business Loan Agreement”), effective as of July 30, 2021, under which the Company was provided a revolving line of credit in the amount of \$6,000,000. The Business Loan Agreement supersedes the Company’s previous \$6,000,000 revolving line of credit from the Lender, entered into on August 31, 2018, that was scheduled to expire on August 31, 2021. The revolving line of credit under the Business Loan Agreement is evidenced by a promissory note and is secured principally by the Company’s inventory and accounts receivable.

The Business Loan Agreement bears interest at a variable annual rate of LIBOR plus 1.35%, computed on a 365/360 basis. All outstanding principal plus all accrued unpaid interest is due upon Lender’s demand or when the Business Loan Agreement expires on August 30, 2024.

At December 31, 2021 and 2020, the Company had no borrowings under its then-existing revolving line of credit provided by the Business Loan Agreements.

Note 7 – Accrued Expenses Payable

Accrued expenses payable at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Accrued customer promotions	\$ 34,110	\$ 342,481
Accrued payroll, commissions, and benefits	498,975	440,302
Other	367,897	360,042
Total accrued expenses payable	<u>\$ 900,982</u>	<u>\$ 1,142,825</u>

Note 8 – Long Term Debt

Term Loan

On July 30, 2021, Kinpak and Regions Bank (the “Lender”) entered into a Credit Agreement (the “Credit Agreement”), effective as of July 20, 2021, under which the Company was extended a term loan (the “Term Loan”) in the original principal amount of \$5,000,000. The Company is using the proceeds of the Term Loan for a 69,000 square foot expansion of Kinpak’s manufacturing, warehouse and distribution facilities in Montgomery, Alabama. The Term Loan is evidenced by a promissory note (the “Note”) and is secured by a second priority mortgage of the assets pledged in Kinpak’s industrial development bond financing obtained on September 26, 2017 (see below for further information).

The Company has unconditionally guaranteed the payment to the Lender promptly when due, by acceleration or otherwise, of all obligations of Kinpak to the Lender.

The Term Loan bears interest at an annual rate of 3.25% and is due in 119 monthly installments of \$35,249 each, plus interest then accrued, beginning on August 20, 2021. The final installment shall be due and payable on July 20, 2031 in an amount equal to all principal and interest then remaining unpaid. Assuming that all amounts due prior to that date are paid in a timely manner, the final installment would be \$1,977,047.

The Credit Agreement provides that prepayments on the Term Loan are subject to a prepayment penalty of 5% during the first year the Term Loan is outstanding, with such penalty declining 1% each year thereafter until there is no prepayment penalty after five years. However, the Lender has agreed to waive the prepayment provisions.

The Credit Agreement includes financial covenants requiring that the Company maintain a minimum fixed charge coverage ratio (generally, the ratio of (A) EBITDA for the most recently completed four fiscal quarters minus the sum of the Company’s distributions to its shareholders, taxes paid and unfunded capital expenditures during such period to (B) prior period current maturities of Company long term debt plus interest expense incurred over the most recently completed four fiscal quarters) of at least 1.20 to 1, tested quarterly, and a maximum “debt to cap” ratio (generally, funded debt divided by the sum of net worth and funded debt) of 0.75 to 1, as of the end of each fiscal quarter. For purposes of computing the fixed charge coverage ratio, “EBITDA” generally is defined as net income before taxes and depreciation expense plus amortization expense, plus interest expense, plus non-recurring and/or non-cash losses and expenses, minus non-recurring and/or non-cash gains and income. The Credit Agreement also requires that the majority shareholder’s ownership does not drop below 50% of the outstanding shares of Kinpak.

The Credit Agreement contains cross-default and cross-collateral provisions relating to any other indebtedness with the Lender, including without limitation the Company’s obligations under its \$6,000,000 revolving line of credit from the Lender.

The Credit Agreement also contains negative covenants restricting the Company’s ability to, among other things, create or assume indebtedness for borrowed money exceeding \$250,000 other than trade payables incurred in the normal course of business, create liens other than permitted liens (as defined in the Credit Agreement), acquire an interest in another entity or incur any obligation as surety or guarantor other than in the ordinary course of business.

Industrial Development Bond Financing

On September 26, 2017, Kinpak indirectly obtained a \$4,500,000 loan from Regions Capital Advantage, Inc. (the “Lender”). The proceeds of the loan are being used principally to pay or reimburse costs relating to the Expansion Project.

The loan was funded by the Lender’s purchase of a \$4,500,000 industrial development bond (the “Bond”) issued by The Industrial Development Board of the City of Montgomery, Alabama (the “IDB”). The Bond is a limited obligation of the IDB and is payable solely



out of revenues and receipts derived from the leasing or sale of Kinpak's facilities. In this regard, Kinpak is obligated to fund the IDB's payment obligations by providing rental payments under a lease between the IDB and Kinpak (the "Lease"), under which Kinpak leases its facilities from the IDB. Kinpak inherited the lease structure when it first acquired its facilities from its predecessor-in-interest in 1996. The Lease provides that prior to the maturity date of the Bond, Kinpak may repurchase the facilities for \$1,000 if the Bond has been redeemed or fully paid.

The Bond bears interest at the rate of 3.07% per annum, calculated on the basis of a 360-day year and the actual number of days elapsed (subject to increase to 6.07% per annum upon the occurrence of an event of default), and is payable in 118 monthly installments of \$31,324 beginning on November 1, 2017 and ending on August 1, 2027, with a final principal and interest payment to be made on September 1, 2027. The amount of the final payment was originally scheduled to be \$1,799,201, however at December 31, 2021 the final payment is scheduled to be \$1,654,391 because the Company has made additional debt payments. The Bond provides that the interest rate will be subject to adjustment if it is determined by the United States Treasury Department, the Internal Revenue Service, or a similar government entity that the interest on the Bond is includable in the gross income of the Lender for federal income tax purposes.

Under the Lease, Kinpak is required to make rental payments for the account of the IDB to the Lender in such amounts and at such times as are necessary to enable the payment of all principal and interest due on the Bond and other charges, if any, payable in respect of the Bond. The Lease also provides that Kinpak may redeem the Bond, in whole or in part, by prepaying its rental payment obligations in an amount sufficient to effect the redemption. In addition, the Lease contains provisions relating to the Expansion Project, including limitations on utilization of Bond proceeds, deposit of unused proceeds into a custodial account (as described below) and investment of monies held in the custodial account. At December 31, 2021, there are no unused proceeds in the custodial account.

Payment of amounts due and payable under the Bond and other related agreements are guaranteed by the Company and its other consolidated subsidiaries. In connection with a guarantee agreement under which the Company provided its guarantee, the Company is subject to certain covenants, including financial covenants requiring that the Company maintain (i) a minimum fixed charge ratio (generally, the ratio of (A) EBITDA minus the sum of Company's distributions to its shareholders, taxes paid and unfunded capital expenditures to (B) current maturities of Company long-term debt plus interest expense) of 1.2 to 1, tested quarterly, and (ii) a ratio of funded debt (as defined in the guaranty agreement) divided by the sum of net worth and funded debt of 0.75 to 1, tested quarterly. For purposes of computing the fixed charge coverage ratio, "EBITDA" generally is defined as net income before taxes and depreciation expense plus amortization expense, plus interest expense, plus non-recurring and/or non-cash losses and expenses, minus non-recurring and/or non-cash gains and income; "unfunded capital expenditures" generally is defined as capital expenditures made from Company funds other than funds borrowed through term debt incurred to finance such capital expenditures. At December 31, 2021, the Company was in compliance with these financial covenants.

The Company incurred debt financing costs of \$196,095 in connection with the financing. These costs are shown as a reduction of the debt balance and are being amortized under the effective interest method.

Other Long-Term Obligations

In connection with the Company's agreement to purchase assets of Snappy Marine, the Company provided to Snappy Marine a promissory note in the amount of \$1,000,000, including interest (of the \$1,000,000 amount of the promissory note, \$930,528 was recorded as principal, and the remaining \$69,472, representing an imputed interest rate of 2.87% per annum, is being recorded as interest expense over the term of the note). The note is payable in equal installments of \$16,667 over a 60-month period that commenced on August 1, 2018, with a final payment due and payable on July 1, 2023. If the note is prepaid in full, the entire outstanding balance of the note (including all unpaid amounts allocated to interest over the remaining term of the note) must be paid.

In connection with the Company's agreement to purchase assets of Check Corporation, the Company agreed to pay Check Corporation (dba Damp Check[®]) \$100,000 in equal installments of approximately \$4,348 over a 23-month period that commenced on January 15, 2020, with a final payment due and payable on November 15, 2021. The Company recorded \$97,012 as principal, and the remaining \$2,988, representing an imputed interest rate of 3.15% per annum, was recorded as interest expense over the 23 months. This obligation was paid in full on November 15, 2021.

On June 22, 2020, the Company entered into a lease agreement with Canon Solutions America, Inc. to lease office equipment. The lease obligates the Company to pay \$100,009 in 63 equal monthly payments of \$1,587. The lease is classified as a finance lease. The Company recorded a lease liability which is included in long term debt and a corresponding right to use asset that is included in property, plant and equipment of \$96,039 based on a discount rate of 1.53%.

At December 31, 2021 and 2020, the Company was obligated under lease agreements covering office equipment utilized in the Company's operations (inclusive of the lease referenced in the preceding paragraph). The office equipment leases, aggregating approximately \$79,000 and \$100,000 at December 31, 2021 and 2020, respectively, have maturities through 2025 and carry interest rates ranging from approximately 1.53% to 3.86% per annum. The office equipment leases are classified as finance leases. During the



years ended December 31, 2021 and 2020, the Company paid \$22,750 (\$21,161 principal and \$1,589 interest) and \$23,304 (\$22,167 principal and \$1,137 interest), respectively, under the lease agreements.

The following table provides information regarding the Company's long-term debt at December 31, 2021 and 2020:

	Current Portion		Long Term Portion	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Term loan	\$ 265,918	\$ -	\$ 4,622,204	\$ -
Obligations related to industrial development bond financing	276,036	263,881	3,057,773	3,454,904
Note payable related to Snappy Marine asset acquisition	193,660	188,187	115,558	309,218
Obligation related to Check Corporation asset acquisition	-	47,082	-	-
Office equipment finance leases	21,554	21,160	57,292	78,847
Total principal of long- term debt	757,168	520,310	7,852,827	3,842,969
Debt issuance costs	(20,637)	(19,616)	(101,938)	(112,789)
Total long- term debt	<u>\$ 736,531</u>	<u>\$ 500,694</u>	<u>\$ 7,750,889</u>	<u>\$ 3,730,180</u>

Required principal payments under the Company's industrial development bond financing and other long- term obligations are set forth below:

Year ending December 31,	
2022	\$ 757,168
2023	697,082
2024	596,685
2025	612,269
2026	615,892
Thereafter	5,330,899
Total	<u>\$ 8,609,995</u>

Note 9 – Income Taxes

The components of the Company's provision for income taxes for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Federal – current	\$ 2,272,796	\$ 2,475,632
Federal – deferred	(31,032)	65,745
State – current	66,016	71,147
State – deferred	(1,463)	3,099
Total provision for income taxes	<u>\$ 2,306,317</u>	<u>\$ 2,615,623</u>

The reconciliation of the provision for income taxes at the statutory rate to the reported provision for income taxes is as follows:

	2021	%	2020	%
Income Tax computed at statutory rate	\$ 2,249,160	21.0%	\$ 2,568,784	21.0%
State tax, net of federal benefit	48,480	0.4%	67,569	0.5%
Share based compensation	-	0.0%	(2,302)	(0.0)%
Permanent adjustments	7,845	0.1%	9,679	0.1%
Tax credits and other	832	0.0%	(28,107)	(0.2)%
Provision for income taxes	<u>\$ 2,306,317</u>	<u>21.5%</u>	<u>\$ 2,615,623</u>	<u>21.4%</u>

The Company's deferred tax liability consisted of the following at December 31, 2021 and 2020:

	2021	2020
Deferred tax liability		
Inventory	\$ 120,208	\$ 63,855
Trade accounts receivable allowances	139,059	71,678
Depreciation and amortization	(606,990)	(515,751)
Total net deferred tax liability	<u>\$ (347,723)</u>	<u>\$ (380,218)</u>

Note 10 – Related Party Transactions

The Company sells products to companies affiliated with Peter G. Dornau, who is the Company's Chairman, President and Chief Executive Officer. The affiliated companies resell, outside of the United States and Canada, products they purchase from the Company. The Company also provides administrative services to these companies and pays certain business-related expenditures for the affiliated companies, for which the Company is reimbursed. Sales to the affiliated companies aggregated approximately \$2,373,000 and \$2,212,000 for the years ended December 31, 2021 and 2020, respectively; fees for administrative services aggregated approximately \$841,000 and \$871,000, respectively, for such years; and amounts billed to the affiliated companies to reimburse the Company for business related expenditures made on behalf of the affiliated companies aggregated approximately \$123,000 and \$199,000 during the years ended December 31, 2021 and 2020, respectively. The Company had accounts receivable from the affiliated companies in connection with the product sales, administrative services and business-related expenditures aggregating approximately \$1,212,000 and \$1,496,000 at December 31, 2021 and 2020, respectively.

An entity that is owned by the Company's Chairman, President and Chief Executive Officer provides several services to the Company. Under this arrangement, the Company paid the entity an aggregate of approximately \$85,000 (\$48,000 for research and development, \$32,000 for charter boat services that the Company used to provide sales incentives for customers and \$5,000 for the production of television commercials) and \$77,000 (\$48,000 for research and development, \$9,000 for charter boat services that the Company used to provide sales incentives for customers, and \$20,000 for the production of television commercials) for the years ended December 31, 2021 and 2020, respectively. Expenditures for the research and development services are included in the consolidated statements of operations within selling and administrative expenses. Expenditures for the charter boat services and television production services are included in the consolidated statements of operations within advertising and promotion expenses.

The Company leases office and warehouse facilities in Fort Lauderdale, Florida from an entity controlled by its Chairman, President and Chief Executive Officer. See Note 4 for a description of the lease terms.

A director of the Company is Regional Executive Vice President of an insurance broker through which the Company sources most of its insurance needs. During the years ended December 31, 2021 and 2020, the Company paid an aggregate of approximately \$1,933,000 and \$1,365,000, respectively, in insurance premiums on policies obtained through the insurance broker.

Note 11 – Stock Options and Awards

On May 29, 2015, the Company's shareholders approved the Ocean Bio-Chem, Inc. 2015 Equity Compensation Plan (the "Plan"). The Plan provides for grants of several types of awards at the discretion of the Equity Grant Committee of the Company's Board of Directors, including stock options, stock units, stock awards, stock appreciation rights and other stock-based awards. The Plan authorizes the issuance of 630,000 shares of Company common stock, subject to anti-dilution adjustments upon the occurrence of certain events affecting the common stock. During 2021 and 2020, the Company granted stock awards under the Plan aggregating 36,600 and 25,150 shares of common stock, respectively, to officers, key employees, and directors. Following the withholding of an aggregate of 3,500 and 1,456 shares of common stock, respectively, in connection with a tax withholding feature of the Plan, 26,700 and 23,694 shares were issued to the award recipients, during 2021 and 2020, respectively. The shares were fully expensed in the period in which they were awarded. Except for 6,400 shares awarded in 2021 that vested on January 1, 2022, the shares vested immediately upon issuance. Compensation expense related to the stock awards was \$407,860 and \$312,610 in 2021 and 2020, respectively. The value of the shares the Company withheld for taxes related to the stock awards was \$37,800 and \$19,991 in 2021 and 2020, respectively. At December 31, 2021, 117,250 shares remained available for future issuance under the Plan. As a result of the adoption of the Plan, no further stock awards will be made under the Company's equity compensation plans previously approved by its shareholders (the "Prior Plans").

Prior to the May 29, 2015 effective date of the Plan, stock options were granted under the Prior Plans. The Company had no outstanding options under the Prior Plans at December 31, 2021 and 2020. The last tranche of non-qualified options was exercised before their expiration date of April 25, 2020. There was no compensation expense attributable to stock options recognized during 2021 and 2020, and at December 31, 2021 and 2020, there was no unrecognized compensation cost related to share based compensation arrangements.

During 2020, stock options to purchase an aggregate of 20,000 shares of common stock were exercised. The Company received a total of \$20,700, withheld 4,704 shares in connection with the net exercise feature of the stock options and issued an aggregate of 15,296 shares to the option holders who exercised their options.

Note 12 – Customer Concentration

During the years ended December 31, 2021 and 2020, the Company had net sales to each of three major customers that constituted in excess of 10% of its net sales. Net sales to these three customers respectively represented approximately 43.7% (16.8%, 13.7%, and 13.2%) and 41.5% (16.0%, 15.0%, and 10.5%) of the Company's net sales, respectively, for the years ended December 31, 2021 and 2020.

At December 31, 2021 and 2020, three customers constituted at least 10% of the Company's gross trade accounts receivable. The gross trade accounts receivable balances for these customers represented approximately 60.1% (22.2%, 19.0%, and 18.9%) and 63.6% (28.8%, 21.1%, and 13.7%) of the Company's gross trade accounts receivable, respectively, at December 31, 2021, and 2020.

Note 13 – Earnings Per Share

Basic earnings per share are calculated by dividing net income by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share reflect additional dilution from potential common stock issuable upon the exercise of outstanding stock options. The following table sets forth the computation of basic and diluted earnings per common share, as well as a reconciliation of the weighted average number of common shares outstanding to the weighted average number of shares outstanding on a diluted basis.

	Years Ended December 31,	
	2021	2020
Earnings per common share – Basic		
Net income	\$ 8,403,968	\$ 9,616,683
Weighted average number of common shares outstanding	9,487,016	9,460,659
Earnings per common share – Basic	\$ 0.89	\$ 1.02
Earnings per common share – Diluted		
Net income	\$ 8,403,968	\$ 9,616,683
Weighted average number of common shares outstanding	9,487,016	9,460,659
Dilutive effect of employee stock-based awards	-	3,687
Weighted average number of common shares outstanding – Diluted	9,487,016	9,464,346
Earnings per common share – Diluted	\$ 0.89	\$ 1.02

The Company had no stock options outstanding at December 31, 2021 and 2020, respectively that were anti-dilutive and therefore not included in the diluted earnings per common share calculation.

Note 14 – Cash Dividends

The Company's board of directors declared the following cash dividends during the years ended December 31, 2021 and 2020:

Year ended December 31, 2021

Declaration Date	Type	Record Date	Payment Date	Dividends	
				Per Share	Amount
February 25, 2021	Quarterly	March 11, 2021	March 25, 2021	\$ 0.03	\$ 284,454
May 21, 2021	Quarterly	June 4, 2021	June 18, 2021	0.03	284,454
August 26, 2021	Quarterly	September 9, 2021	September 23, 2021	0.03	284,574
November 22, 2021	Quarterly	December 6, 2021	December 21, 2021	0.03	285,255
Total				<u>\$ 0.12</u>	<u>\$ 1,138,737</u>

Year ended December 31, 2020

Declaration Date	Type	Record Date	Payment Date	Dividends	
				Per Share	Amount
May 26, 2020	Special	June 9, 2020	June 23, 2020	\$ 0.02	\$ 189,242
May 26, 2020	Quarterly	June 9, 2020	June 23, 2020	0.02	189,242
August 26, 2020	Quarterly	September 9, 2020	September 23, 2020	0.02	189,242
November 23, 2020	Quarterly	December 3, 2020	December 17, 2020	0.02	189,636
Total				<u>\$ 0.08</u>	<u>\$ 757,362</u>



Note -15 – Recent Accounting Pronouncements

Accounting Guidance Adopted by the Company

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments – Credit Losses*,” which replaces the “incurred loss” model under current GAAP with a forward-looking “expected loss” model, principally in connection with financial assets subject to credit losses. Under current GAAP, an entity reflects credit losses on financial assets measured on an amortized cost basis only when it is probable that losses have been incurred, generally considering only past events and current conditions in making these determinations. The guidance under ASU 2016-13 prospectively replaces this approach with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, beginning when such assets are first acquired. Under the expected loss model, expected credit losses will be measured based not only on past events and current conditions, but also on reasonable and supportable forecasts. The guidance also expands disclosure requirements. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted ASU 2016-13 on January 1, 2020. The adoption of ASU 2016-13 did not have a material impact on the Company’s consolidated financial statements.





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INVESTOR INFORMATION NASDAQ STOCK SYMBOL: OBCI

Stock Transfer Agent

Computershare
P.O. Box 30170
College Station, Texas 77842-3179

General Counsel

Berger Singerman, LLP
350 East Las Olas Boulevard
Fort Lauderdale, Florida 33301

Auditors

Accell Audit & Compliance, PA
4806 W Gandy Blvd.
Tampa, Florida 33611

Reports and Publications

A free copy of the Company's 2021 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 sales prices of the Common Stock of Company as reported on the NASDAQ Capital Market for each calendar quarter in 2021 and 2020:

	2021		2020	
	High	Low	High	Low
First Quarter	\$14.14	\$9.76	\$7.95	\$3.18
Second Quarter	\$15.21	\$10.90	\$17.41	\$4.05
Third Quarter	\$13.40	\$8.33	\$22.55	\$11.55
Fourth Quarter	\$11.70	\$7.85	\$18.03	\$11.23

OCEAN BIO-CHEM, INC. BOARD OF DIRECTORS

Peter G. Dornau
Jeffrey S. Barocas
Diana M. Conard*
Gregor M. Dornau
William W. Dudman
James M. Kolisch
Kimberly A. Krause*
John B. Turner*

*member of audit and equity grant committees

OFFICERS OF OCEAN BIO-CHEM, INC.

Peter G. Dornau
President and Chief Executive Officer
Jeffrey S. Barocas
Vice President, Chief Financial Officer
Gregor M. Dornau
Executive Vice President of Sales and Marketing
William W. Dudman
Vice President, Chief Operating Officer, Corporate Secretary

OFFICERS OF STAR BRITE, INC.

Peter G. Dornau
President and Chief Executive Officer
Jeffrey S. Barocas
Vice President, Chief Financial Officer
Natalie S. Cuomo
Vice President of Customer Service
Gregor M. Dornau
Executive Vice President of Sales and Marketing
William W. Dudman
Vice President, Chief Operating Officer
Marc A. Emmi
Senior Vice President of Sales
Justin L. Gould
Vice President of Technology
Victor G. Phillpotts
Vice President of Business Development



4041 SW 47th Avenue • Fort Lauderdale, Florida 33314
Tel:(954) 587-6280 • (800) 327-8583 • Fax:(954) 587-2813
www.OCEANBIOCHEM.com • www.STARBRITE.com
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