

MERIT MEDICAL SYSTEMS INC  
Form 10-Q  
May 09, 2008

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 0-18592

### MERIT MEDICAL SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Utah  
(State or other jurisdiction of incorporation or organization)

87-0447695  
(I.R.S. Identification No.)

1600 West Merit Parkway, South Jordan, UT, 84095  
(Address of Principal Executive Offices)

(801) 253-1600  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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.

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Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

**Common Stock**  
Title or class

**27,600,139**  
Number of Shares  
Outstanding at May 5, 2008

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**MERIT MEDICAL SYSTEMS, INC.**

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## Part I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

MARCH 31, 2008 AND DECEMBER 31, 2007

(In thousands - unaudited)

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 23,757	\$ 17,574
Trade receivables - net of allowances of \$511 and \$497, respectively	25,391	26,619
Employee receivables	161	144
Other receivables	929	1,140
Inventories	34,623	34,106
Prepaid expenses and other assets	1,072	1,297
Deferred income tax assets	2,087	811
Income tax refunds receivable	418	297
<b>Total current assets</b>	<b>88,438</b>	<b>81,988</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Land and land improvements	7,977	7,977
Building	43,241	43,147
Manufacturing equipment	64,487	61,448
Furniture and fixtures	17,322	17,110
Leasehold improvements	9,902	9,870
Construction-in-progress	10,619	10,680
<b>Total</b>	<b>153,548</b>	<b>150,232</b>
Less accumulated depreciation and amortization	(52,813)	(50,536)
<b>Property and equipment net</b>	<b>100,735</b>	<b>99,696</b>
<b>OTHER ASSETS:</b>		
Other intangibles - net of accumulated amortization of \$2,396 and \$2,171, respectively	6,610	6,163
Goodwill	11,651	9,527
Other assets	2,911	2,964
Deferred income tax assets	336	4
Deposits	78	78
<b>Total other assets</b>	<b>21,586</b>	<b>18,736</b>
<b>TOTAL ASSETS</b>	<b>\$ 210,759</b>	<b>\$ 200,420</b>

See notes to consolidated financial statements.

## MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

MARCH 31, 2008 AND DECEMBER 31, 2007

(In thousands - unaudited)

	March 31, 2008	December 31, 2007
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 11,246	\$ 10,275
Other payables	1,500	
Accrued expenses	9,821	9,492
Advances from employees	261	267
Liabilities related to unrecognized tax positions		1,023
Income taxes payable	2,334	737
<b>Total current liabilities</b>	<b>25,162</b>	<b>21,794</b>
<b>DEFERRED INCOME TAX LIABILITIES</b>	<b>6,533</b>	<b>6,082</b>
<b>LIABILITIES RELATED TO UNRECOGNIZED TAX POSITIONS</b>	<b>2,588</b>	<b>2,588</b>
<b>DEFERRED COMPENSATION PAYABLE</b>	<b>3,048</b>	<b>3,063</b>
<b>DEFERRED CREDITS</b>	<b>2,078</b>	<b>2,105</b>
<b>OTHER LONG-TERM OBLIGATION</b>	<b>389</b>	<b>420</b>
<b>Total liabilities</b>	<b>39,798</b>	<b>36,052</b>
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock 5,000 shares authorized as of March 31, 2008, no shares issued		
Common stock no par value; 50,000 shares authorized; 27,589 and 27,413 shares issued at March 31, 2008 and December 31 2007, respectively	54,564	52,477
Retained earnings	116,264	111,947
Accumulated other comprehensive income (loss)	133	(56)
<b>Total stockholders equity</b>	<b>170,961</b>	<b>164,368</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 210,759</b>	<b>\$ 200,420</b>

See notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(In thousands, except earnings per share and unaudited)

	Three Months Ended March 31,	
	2008	2007
NET SALES	\$ 53,553	\$ 51,030
COST OF SALES	31,961	32,172
GROSS PROFIT	21,592	18,858
OPERATING EXPENSES:		
Selling, general, and administrative	13,072	12,015
Research and development	1,916	2,364
Total operating expenses	14,988	14,379
INCOME FROM OPERATIONS	6,604	4,479
OTHER INCOME (EXPENSE):		
Interest income	150	89
Other (expense)	(5)	(1)
Other income - net	145	88
INCOME BEFORE INCOME TAXES	6,749	4,567
INCOME TAX EXPENSE	2,432	1,598
NET INCOME	\$ 4,317	\$ 2,969
EARNINGS PER COMMON SHARE:		
Basic	\$ .16	\$ .11
Diluted	\$ .15	\$ .10
AVERAGE COMMON SHARES:		
Basic	27,495	27,653
Diluted	28,301	28,617

See notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

(In thousands and unaudited)

	<b>Three Months Ended</b>	
	<b>2008</b>	<b>2007</b>
	<b>March 31,</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 4,317	\$ 2,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,565	2,243
Losses on sales and/or abandonment of equipment	4	70
Write-off of certain patents and trademarks	40	
Amortization of deferred credits	(27)	(37)
Deferred income taxes	(1,044)	(119)
Tax benefit attributable to appreciation of common stock options exercised	(263)	(132)
Stock-based compensation	98	147
Changes in operating assets and liabilities net of effects from acquisitions:		
Trade receivables	1,505	(191)
Employee receivables	(13)	11
Other receivables	253	(289)
Income tax refunds receivable	(98)	3
Inventories	(355)	408
Prepaid expenses and other assets	233	(207)
Deposits		6
Trade payables	1,392	(740)
Accrued expenses	209	199
Advances from employees	(14)	(14)
Income taxes payable	1,855	1,331
Liabilities related to unrecognized tax positions	(1,023)	163
Other long-term obligations	(31)	(27)
Total adjustments	5,286	2,825
Net cash provided by operating activities	9,603	5,794
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures for:		
Property and equipment	(4,060)	(3,433)
Patents and trademarks	(45)	(49)
Decrease/(increase) in cash surrender value of life insurance contracts	52	(174)
Proceeds from the sales of equipment	2	5
Cash paid in acquisitions	(1,500)	(3,299)
Net cash used in investing activities	(5,551)	(6,950)

See notes to consolidated financial statements.





## MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2008

(In thousands and unaudited)

	Three Months Ended March 31,	
	2008	2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	\$ 1,725	\$ 664
(Decrease)/Increase in deferred compensation payable	(15)	81
Excess tax benefits from stock-based compensation	263	132
Net cash provided by financing activities	1,973	877
EFFECT OF EXCHANGE RATES ON CASH	158	86
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,183	(193)
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	17,574	9,838
End of period	\$ 23,757	\$ 9,645
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b> Cash paid during		
the period for:		
Interest	\$ 2	\$ 3
Income taxes	\$ 2,876	\$ 218
Adoption of FIN 48		\$ 610

## SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

In the first quarter of 2008, we entered into an asset purchase and supply agreement with Micrus Endovascular Corporation, a Delaware corporation ( Micrus ), to purchase three catheter platforms for \$3.0 million dollars. We paid Micrus \$1.5 million in January 2008 and have accrued an additional \$1.5 million in other payables, which is payable within one year from the closing date. We have also accrued \$6,000 in acquisition costs. The purchase price was preliminarily allocated to inventory for \$161,745, other intangibles (customer relationships) for \$320,000, developed technology for \$370,000, a covenant not to compete for \$30,000, and goodwill for \$2,124,255, which is subject to change upon completion of our final asset valuation.

Fair value of assets acquired (including goodwill of \$2,124,255)	\$ 3,006,000
Cash paid	(1,500,000)

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Accrued purchase price	(1,506,000)
Liabilities assumed	None

See notes to consolidated financial statements.

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During the first quarter of 2007, we acquired other intangibles (Customer Relationships) of Medrad, a Swedish Company, in a purchase transaction for \$124,036. The purchase price was allocated to other intangibles (Customer Relationships) for \$124,036.

Fair value of assets acquired	\$	124,036
Cash paid		(124,036)
Liabilities assumed		None

During the first quarter of 2007, we entered into a distribution agreement with Milamy Partners LLC, a Maine corporation, wherein we purchased the exclusive, worldwide right to distribute their Kanguru Abdominal Retraction System in the vascular lab markets for \$350,000. As a part of the distribution agreement, we received a customer list for the distribution agreements terminated by Milamy for their domestic and International Sales to vascular labs. The purchase price was preliminarily allocated to other intangibles (Customer Relationships) for \$350,000.

Fair value of assets acquired	\$	350,000
Cash paid		(175,000)
Accrued purchase price		(175,000)
Liabilities assumed		None

In the first quarter of 2007, we entered into an asset purchase agreement with Datascope Corporation, a New Jersey corporation, to purchase its ProGuide catheter in a purchase transaction for \$3.0 million dollars. In connection with this agreement we acquired assets, inventory, customer list, patents and trademarks. We plan to complete our asset valuation during the second quarter of 2007. The purchase price was preliminarily allocated to fixed assets for \$50,844, inventory for \$806,507 and goodwill for \$2,142,649, which is subject to change upon completion of our asset valuation.

Fair value of assets acquired (including goodwill of \$2,142,649)	\$	3,000,000
Cash paid		(3,000,000)
Liabilities assumed		None

See notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014	447,790
2015	440,000
Thereafter	900,000
Total	\$3,210,210

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## 8. RELATED PARTY TRANSACTIONS

At June 30, 2010 and December 31, 2009, the Company had amounts receivable from and payable to affiliated companies, which are directly or beneficially owned by the Company's president, aggregating a receivable of approximately \$336,000 and \$237,000 respectively. Such amounts result from sales and transfers to the affiliates, as well as allocations of management fees incurred by the Company on the affiliates' behalf, and funds advanced to or from the Company.

Sales to such affiliates, which act as foreign distributors, were sold at cost of material and labor plus an amount to cover manufacturing overhead costs and profits. The sales and transfers to affiliates aggregated approximately \$771,000 and \$601,400 during the six months ended June 30, 2010 and 2009, and \$340,000 and \$285,000 for the three months ended June 30, 2010 and 2009, respectively. In addition, the affiliates are charged for their allocable share of administrative expenses of the Company. Allocable administrative fees aggregated \$95,300 and \$125,000 for the six months period ended June 30, 2010 and 2009, respectively.

Such transactions were made in the ordinary course of business but were not made on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other customers. These related party sales are for distribution in markets that the Company does not normally sell into, and serves to increase volume and absorption of overhead in our manufacturing facility. Management believes that the sales transactions did not involve more than normal credit risk or present other unfavorable features.

A subsidiary of ours currently uses the services of an entity that is owned by our president to conduct product research, development and testing of products. Such entity received \$22,000 and \$15,000 during the six months periods ended June 30, 2010 and 2009 under such relationship, respectively.

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

The Company leases office and warehouse facilities from the CEO of the Company (see note 9 for details).

## 9. COMMITMENTS

On May 1, 2008, the Company renewed for ten years the existing lease for approximately 12,700 square feet of office and warehouse facilities in Fort Lauderdale, Florida from an entity owned by the CEO of the Company. The lease still requires a minimum rental of \$94,800 plus applicable taxes for the first year and provides for a maximum 2% increase annually on the lease throughout the term. Additionally, the landlord is entitled to reimbursement of all taxes, assessments, and any other expenses that arise from ownership. The landlord reserves the right under the agreement to review the terms of the lease at 3, 6, and 9 year intervals in order to make modifications for market conditions. Total rent charged to operations during the six months period ended June 30, 2010 and 2009 amounted to approximately \$52,000 and \$54,600, respectively.

The following is a schedule of minimum future rentals on the non-cancelable operating lease:  
12 month period ending June 30,

2011	\$102,839
2012	104,896
2013	106,994
2014	109,134

2015	111,317
Thereafter:	327,472
	\$ 862,652

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## 10. WEIGHTED AVERAGE SHARES OUTSTANDING

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Weighted-average common shares outstanding	7,746,886	7,699,813	7,724,722	7,644,980
Dilutive effect of stock plans, other options & conversion rights	868,440	54,392	637,997	41,957
Diluted weighted-average shares outstanding	8,615,326	7,754,205	8,362,719	7,686,937

## 11. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following assumptions: an average risk free rate of 1.72% for the six months ended June 30, 2010, no dividend yield for all years, expected life from one year to ten years and volatility of approximately 55.2%. Compensation cost recognized during the three months period ended June 30, 2010 attributable to stock based compensation amounted to approximately \$313,000. Stock based compensation cost recognized during the six months period ended June 30, 2010 amounted to approximately \$337,000. Stock based compensation costs to be recognized over 2010 is approximately \$385,000. As of June 30, 2010 there was approximately \$211,000 of unrecognized stock based compensation cost related to unvested share based compensation arrangements. This cost will be charged against operations as the respective options vest through December, 2013.

The following schedule reflects the detailed status of outstanding options under the Company's three qualified stock option plans, two non-qualified plans and a non-plan option grant as of June 30, 2010.

Plan	Date granted	Options outstanding	Exercisable options	Exercise price	Expiration date	Weighted Av. remaining life
NON-PLAN	03/25/09	115,000	115,000	0.55	03/24/14	3.8
2002 PLAN	11/06/06	113,500	83,990	0.93	11/05/11	1.4
2007 PLAN	05/17/07	167,500	106,083	1.66	05/16/12	1.9
2007 PLAN	10/08/07	2,500	1,383	1.87	10/07/12	2.3
2007 PLAN	12/17/07	156,500	80,511	1.32	12/16/12	2.5
2008 PLAN	08/25/08	156,100	58,451	0.97	08/21/13	3.2
2002 PLAN NQ	10/22/02	35,000	35,000	1.26	10/21/12	2.3
2002 PLAN NQ	06/20/03	30,000	30,000	1.03	06/19/13	3.0
2002 PLAN NQ	05/25/04	30,000	30,000	1.46	05/24/14	4.0
2002 PLAN NQ	04/03/06	40,000	40,000	1.08	04/02/16	5.8
2002 PLAN NQ	12/17/07	48,100	48,100	1.32	12/16/17	7.6
2008 PLAN NQ	01/11/09	50,000	50,000	0.69	01/10/19	8.7
2008 PLAN NQ	4/26/10	25,000	25,000	2.07	04/25/20	10.0
		969,200	703,518	1.16		3.5





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On April 26, 2010 each independent Director received a grant of options to acquire 5,000 shares of our common stock at an exercise price of \$2.07 per share, the fair market value of the underlying shares on the date of grant. These options are immediately exercisable and expire on April 25, 2020.

On June 4, 2010 we issued 144,500 shares of our common stock bearing a restricted legend to certain officers and other key employees as a component of their compensation. At the date of grant the shares had a market value of \$2.08 per share.

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Item

2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

Forward-looking Statements:

Certain statements contained herein, including without limitation expectations as to future sales and operating results, constitute forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigations Reform Act of 1995. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. Without limiting the generality of the foregoing, words such as “may”, “will”, “expect”, “anticipate”, “intend”, “could” or the negative other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that may affect the Company’s results include, but are not limited to, the highly competitive nature of the Company’s industry, reliance on certain key customers, consumer demand for marine recreational vehicle and automotive products, advertising and promotional efforts, and other factors. The Company will not undertake and specifically declines any obligation to update or correct any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Overview:

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

Critical accounting policies and estimates:

See Note 1 “Summary of Accounting Policies” and Note 2 “Recent Accounting Pronouncements” in the Notes to the Unaudited Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect, if any, on the Company.

Liquidity and Capital Resources:

The primary sources of our liquidity are our operations and borrowings from Regions Bank pursuant to a revolving line of credit aggregating \$6 million. On May 31, 2008 this line of credit was renewed for three years. Such line matures May 31, 2011, bears interest at the 30 Day LIBOR plus 250 basis points (2.81% at June 30, 2010) and is secured by our trade receivables, inventory, and intangible assets. We are required to maintain a minimum working capital of \$ 1.5 million and meet certain other financial covenants during the term of the agreement. At June 30, 2010 the Company was in compliance with its debt covenants, and was obligated under this arrangement in the amount of \$1,000,000.

In connection with the purchase and expansion of the Alabama facility, the Company secured financing with Industrial Development Bonds during 1997. The proceeds were utilized for both the repayment of certain advances used to purchase the Alabama facility and to expand such facility for our future needs. During July 2002, we completed a second Industrial Development Bond financing aggregating \$3.5 million through the City of

Montgomery, AL. Such transaction funded an approximate 70,000 square foot addition to the manufacturing facility as well as the remaining machinery and equipment additions required therein. This project was substantially completed during 2003.

The bonds maturity dates are respectively March 2012 and July 2017 for the 1997 and 2002 series bonds.

In order to market the Industrial Development Bonds at favorable interest rates the Company obtained a substitute irrevocable letter of credit for the 1997 issue and a new irrevocable letter of credit for the 2002 issue from Regions Bank. Under such letters of credit agreements maturing on July 31, 2010, renewable annually, we are required to maintain a stipulated level of working capital, a designated maximum debt to tangible ratio, and a required debt service coverage ratio. Such letters of credit are secured by a first priority mortgage on the underlying Alabama facility and collateral on Kinpak manufacturing equipment.

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The bonds when reissued are marketed weekly at the prevailing rates for such tax-exempt instruments. Principal and accrued interest retiring the underlying bonds are payable quarterly through March 2012 and July 2017 for the 1997 and 2002 series, respectively. During the six months ended June 30, 2010 interest rates ranged between 2.0% and 3.25%.

Repayment of the bonds is guaranteed by a Letter of Credit issued by the Company's primary commercial bank – Regions Bank. Security for the Letter of Credit is a first mortgage on the Kinpak facility and collateral on Kinpak manufacturing equipment.

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

On April 12, 2005 we entered into a financing obligation with Regions Bank whereby they advanced us \$500,000 to finance equipment acquisitions at our Kinpak facility. Such obligation is due in monthly installments of principal aggregating approximately \$8,300 plus interest at prevailing rates. As of April 2010, this obligation has been paid in full.

We are involved in making sales in the Canadian market and must deal with the currency fluctuations of the Canadian currency. We do not engage in currency hedging and deal with such currency risk as a pricing issue.

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

Many of the raw materials that we use in the manufacturing process are petroleum chemical based and commodity chemicals that are subject to fluctuating prices. The costs of petroleum and related products, major components in many of our products, have been increasingly unstable since 2008. The practical dynamics of our business do not afford us the same pricing flexibility with our customers that is available to our suppliers in that we cannot pass along price increases to our national retailers and distributors as promptly as our suppliers do.

As of June 30, 2010 and through the date hereof, we did not and do not have any material commitments for capital expenditures, nor do we have any other present commitment that is likely to result in our liquidity increasing or decreasing in any material way. In addition, except for our need for additional capital to finance inventory purchases, we know of no trend, additional demand, event, or uncertainty that will result in, or that is reasonably likely to result in, our liquidity increasing or decreasing in any material way.

Results of Operations:

For the Three Months Ended June 30, 2010 compared to the Three Months ended June 30, 2009

Net sales were approximately \$7,353,000 for the three months ended June 30, 2010 compared to \$5,715,000 for the comparative quarter 2009, an increase of approximately \$1,638,000 or 29%. The Company increased its sales within

its' core marine markets as well as increasing sales into newer markets. In the first quarter the Company also expanded its distribution to several new customers in the above newer markets, as well as increasing sales to existing customers. The Company had increased sales in a majority of its product groups including antifreeze, oils and marine products, both of Starbrite branded and private label products. It appears that customers that had reduced their inventories last year, have now been increasing their inventories to pre recession levels.

Cost of goods sold as a percentage of net sales decreased to 62.8% in 2010 from 65.6% for the comparative 2009 quarter. The decrease in the cost of sales as a percentage of sales is comprised of two primary components. The first is an improved gross margin, as a result of the sales mix, with the sale of more profitable products, in addition to the favorable effect of increased volume through our manufacturing facilities.

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Advertising and promotion expenses were approximately \$418,000 compared to \$576,000 for the comparative 2009 second quarter. The decrease in expenses of approximately \$158,000 is a result of timing of advertising expenditures. It is anticipated that the full year advertising expenditures will not be lower than 2009's full year advertising expenditures.

Selling and administrative expenses increased approximately \$616,000 to \$1,609,000 from \$993,000, for the comparative quarter. Variable selling expenses increased in relationship with the increased sales. These expenses include sales commissions and freight to customers. In addition, the administrative expense increase mainly resulted from an increase in non cash - stock based compensation, and the payment of performance bonuses. The Company also incurred one time organization expenditures for the joint venture of OST completed in the current quarter of \$67,000.

Interest expense decreased by approximately \$17,000 for the quarter ended June 30, 2010 to \$40,000 compared to the corresponding quarter of \$57,000 in 2009. The lower interest expense is a result of lower overall average borrowings on the Company's line of credit, in conjunction with lower interest rates on the Company's IRB's which were remarketed in the first quarter of this year.

Operating income was approximately \$667,000 compared to \$338,000, for the comparative 2009 second quarter, an increase of \$329,000 or 97.3%. This is a result of higher sales volume, an improved gross margin, partially offset by higher selling and administrative expenses as detailed above.

Income taxes - The Company had an income tax provision for the quarter of approximately \$295,000 or 44.2% of pretax income compared to the corresponding quarter of approximately \$205,000 in 2009 and 60.5% of pretax income.

Net profit for the quarter ended June 30, 2010 was approximately \$372,000 compared to \$133,000 for the comparable period in 2009 an increase of 179%.

For the Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

Net sales were approximately \$12,551,000 for the six months ended June 30, 2010 compared to \$9,825,000 for the comparative 2009 period, an increase of approximately \$2,726,000 or 28%. The Company increased its' sales of private label marine products to new and existing customers. The Company also increased sales of its' branded marine products, in addition to expanding sales of its higher quality oils.

Cost of goods sold as a percentage of sales decreased to 64.4% of sales compared to 65.2% for the comparative 2009 period. This decrease in the cost of goods sold percentage of .8% was primarily a result of increased volume through the Company's manufacturing facilities in addition to the increased sales of higher margin products.

Advertising and promotion expenses were approximately \$687,000 compared to \$898,000 for the comparative 2009 period. The decrease in advertising expense of approximately \$211,000 was a result of a decrease in customer cooperative, promotional, and catalog allowances in addition to the timing of advertising expenses. As referenced above in the quarterly management discussion and analysis the full year expenditures are not anticipated to be lower than the full year prior years advertising expenditures.

Selling and administrative expenses increased approximately \$548,000 to \$2,392,000 from \$1,844,000, for comparative periods. Variable selling expenses increased in relationship with the increased sales. These expenses include sales commissions and freight to customers. In addition, the administrative expense increase mainly resulted

from an increase in non cash - stock based compensation, and the payment of performance bonuses. The Company also incurred one time organization expenditures for the joint venture of OST completed in the current quarter of \$67,000.

Interest expense decreased by approximately \$60,000 for the six months ended June 30, 2010 to \$68,000 from \$128,000 for the corresponding 2009 period. The lower interest expense is a result of lower overall average borrowings on the Company's line of credit, in conjunction with lower interest rates on the Company's IRB's which remarketed in the first quarter of this year.

Operating income increased to approximately \$1,319,000 from \$543,000 a change of \$776,000 or 142.7%. This is a result of higher sales volume, higher gross margin percent, partially offset by higher operating expenses.

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Income taxes - The Company had income tax expense for the six months of approximately \$575,000 or 42.9% of pretax income compared to \$296,000 or 53.3% of pretax income , for the corresponding 2009 period.

Net profit for the six months ended June 30, 2010 was approximately \$766,000 compared to \$259,000 for the comparable period in 2009 an increase of \$507,000 or 195.6%.

Item

3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable

Item

4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures:

The Company has carried out an evaluation under the supervision of management, including the President and Chief Executive Officer (“CEO”) and the Vice President - Finance and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of its disclosure controls and procedures. Based on that evaluation, our CEO and CFO have concluded that, as of June 30, 2010, our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. - Legal Proceedings

None

Item 1A. – Risk Factors

Not Applicable

Item 2. – Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. – Defaults Upon Senior Securities

None.

Item 4 – (Removed and Reserved)

Item 5 – Other Information

Not applicable

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Item 6 – Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on behalf by the Undersigned there unto duly authorized.

OCEAN BIO-CHEM, INC.

Date: August 13, 2010

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

/s/ Jeffrey S. Barocas  
Jeffrey S. Barocas  
Chief Financial Officer

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