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ODYSSEY MARINE EXPLORATION INC
Form 10QSB
January 14, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2004

Commission File Number 1-31895

ODYSSEY MARINE EXPLORATION, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

84-1018684

(State or other jurisdiction of
incorporation or organization)

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

5215 W. Laurel Street, Tampa, Florida 33607

(Address of principal executive offices)

(813) 876-1776

(Registrant's telephone number including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the 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.

[X] Yes [] No

As of December 31, 2004, the Registrant had 38,530,599 shares of Common Stock, \$.0001 Par Value, outstanding.

Transitional Small Business Disclosure format: Yes [] No [X]

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ITEM 1. FINANCIAL STATEMENTS

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEET AS OF NOVEMBER 30, 2004 - Unaudited

ASSETS

CURRENT ASSETS

Cash	\$ 3,593,677
Accounts receivable	1,643,125
Inventory	7,355,955
Prepaid expense	318,463
Deferred tax asset	1,934,887
Other current assets	32,489

Total current assets	14,878,596

PROPERTY AND EQUIPMENT

Equipment and office fixtures	6,461,143
Building and land	3,255,581
Accumulated depreciation	(1,244,706)

Total property and equipment	8,472,018

OTHER ASSETS

Artifacts	396,879
Inventory (non current)	2,097,844
Deposits	271,355
Deferred tax asset	895,142
Attraction development	433,204

Total other assets	4,094,424

Total assets \$27,445,038
 =====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 892,748
Accrued expenses	1,181,224
Loan payable	73,700
Mortgage payable	100,000
Tenant deposits	19,098

Total current liabilities	2,266,770

LONG TERM LIABILITIES

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Mortgage payable	1,866,667
Deferred income from Revenue Participation Certificates	887,500

Total long term liabilities	2,754,167

Total liabilities	5,020,937

STOCKHOLDERS' EQUITY	
Preferred stock - \$.0001 par value; 9,300,000 shares authorized; none outstanding	-
Preferred stock series A convertible - \$.0001 par value; 510,000 shares authorized; none issued and none outstanding	-
Common stock - \$.0001 par value; 100,000,000 shares authorized; 38,530,599 issued and outstanding	3,853
Additional paid-in capital	26,430,933
Accumulated unrealized gain on investment	714
Accumulated deficit	(4,011,399)

Total stockholders' equity	22,424,101

Total liabilities and stockholders' equity	\$27,445,038
	=====

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited

	Three Months Ended November,	
	2004	2003
	-----	-----
REVENUE	\$ 6,300,371	\$ 2,862
COST OF SALES	290,742	1,474
	-----	-----
GROSS PROFIT	6,009,629	1,388
OPERATING EXPENSES		
Operations & research	691,368	1,247,230
Marketing, general & administrative	1,272,607	528,089
Depreciation	136,643	111,949
	-----	-----
Total operating expenses	2,100,618	1,887,268
INCOME (LOSS) FROM OPERATIONS	3,909,011	(1,885,880)
OTHER INCOME (EXPENSE)		
Interest income	2,653	6,994
Interest expense	(32,677)	-
Other	26,380	40,000
	-----	-----
Total other income (expense)	(3,644)	46,994
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	3,905,367	(1,838,886)
	-----	-----
Income tax (provision)	(1,493,178)	-
	-----	-----
NET INCOME (LOSS)	2,412,189	(1,838,886)
	=====	=====

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EARNINGS (LOSS) PER SHARE			
Basic	\$	0.06	\$ (0.06)
Diluted	\$	0.06	\$ (0.06)
Weighted average number of common shares outstanding			
Basic		38,530,599	30,702,034
Diluted		39,241,760	30,702,034

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited

	Nine Months Ended November 30,	
	2004	2003
	-----	-----
REVENUE	\$15,879,000	\$ 73,464
COST OF SALES	1,819,459	1,657
	-----	-----
GROSS PROFIT	14,059,541	71,807
OPERATING EXPENSES		
Operations & research	1,650,433	2,168,619
Marketing, general & administrative	3,337,849	1,453,473
Depreciation	313,880	197,820
	-----	-----
Total operating expenses	5,302,162	3,819,912
INCOME (LOSS) FROM OPERATIONS	8,757,379	(3,748,105)
OTHER INCOME (EXPENSE)		
Revenue participation expense	-	(12,986)
Interest income	4,253	19,364
Interest expense	(48,917)	(109,227)
Other	35,598	45,736
	-----	-----
Total other income (expense)	(9,066)	(57,113)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	8,748,313	(3,805,218)

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Income tax (provision)	(3,461,282)	-
	-----	-----
NET INCOME (LOSS)	5,287,031	(3,805,218)
	=====	=====
EARNINGS (LOSS) PER SHARE		
Basic	\$ 0.14	\$ (0.12)
Diluted	\$ 0.13	\$ (0.12)
Weighted average number of common shares outstanding		
Basic	38,385,644	30,702,034
Diluted	40,360,149	30,702,034

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited

	Nine Months Ended November 30,	
	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ 5,287,031	\$ (3,805,218)
Adjustments to reconcile net loss to net cash used by operating activity:		
Deferred income taxes	3,461,282	-
Common Stock issued for:		
Services	-	74,150
Officer and director compensation	-	50,600
Interest payable	-	108,750
Depreciation	313,880	225,663
Gain on disposal of equipment	-	(5,736)
Interest income related parties	-	(15,770)
Inventory	(5,453,934)	(575,877)
(Increase) decrease in:		
Accounts receivable	(1,640,297)	-
Advances, prepaids, deposits	(57,473)	(270,934)
Increase(decrease) in:		
Accounts payable	(140,778)	360,820
Customer deposits	19,098	-

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Accrued expenses	1,064,731	26,451
	-----	-----
NET CASH(USED) IN OPERATING ACTIVITIES	2,853,540	(3,827,101)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,984,653)	(3,276,111)
Purchase of U.S. Treasury Bills	-	(2,988,664)
Attraction development	(433,204)	-
Purchase of building and land	(1,255,581)	-
	-----	-----
NET CASH (USED) IN INVESTING ACTIVITIES	(3,673,438)	(6,264,775)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Issuance of common stock	1,030,313	11,713,250
Related party loans receivable	-	38,610
Loan payable	1,523,700	978,750
Sale of marketable securities	1,991,554	-
Repayment of note payable to related party	-	(2,144)
Repayment of loan payable	(1,450,000)	
Repayment of mortgage payable	(33,332)	
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,062,235	12,728,466
	-----	-----
NET INCREASE IN CASH	2,242,337	2,636,590
	-----	-----
CASH AT BEGINNING OF PERIOD	1,351,340	785,559
	-----	-----
CASH AT END OF PERIOD	\$ 3,593,677	\$ 3,422,149
	=====	=====
SUPPLEMENTARY INFORMATION:		
Interest paid	\$ 44,640	\$ 11,229
Income taxes paid	\$ -	\$ -

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)

Summary of significant non-cash transactions:

During the quarter ended November 30, 2004, total depreciation charged was \$261,771. Of this amount \$125,128 was capitalized as inventory.

During the quarter ended August 31, 2004, total depreciation charged was \$211,575. Of this amount \$108,594 was capitalized as inventory. Also, we borrowed \$2,000,000 through a mortgage loan agreement to partially fund the purchase of our corporate and operations headquarters.

During the quarter ended May 31, 2004, total depreciation charged was \$167,897. Of this amount, \$93,641 was capitalized as inventory.

During March 2003 four consultants were issued 58,135 shares of common stock for \$33,700 in services, 6,635 shares for an account payable valued at \$5,000 and 7,500 shares for prepaid expense of \$4,200. Also, a note holder elected to convert principal in the amount of \$54,000 into 108,000 shares of common stock. In addition, during March 2003, officer bonuses (42,000 shares valued

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at \$23,100) and director compensation (50,000 shares valued at \$27,500) were paid by the issuance of common stock.

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

Odyssey Marine Exploration, Inc. was incorporated March 5, 1986, as a Colorado corporation named Universal Capital Corporation, Inc. On August 8, 1997 Odyssey Marine Exploration, Inc. (the "Company"), completed the acquisition of 100% of the outstanding Common Stock of Remarc International, Inc., a Delaware corporation formed May 20, 1994, ("Remarc") in exchange for the Company's Common Stock in a reverse acquisition. On September 7, 1997, we changed our domicile to Nevada and our name was changed to Odyssey Marine Exploration, Inc. Odyssey Marine Exploration, Inc., is engaged in the archaeologically sensitive exploration and recovery of deep-water shipwrecks throughout the world. The corporate headquarters are located in Tampa, Florida.

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The accompanying unaudited consolidated financial statements of Odyssey Marine Exploration, Inc. and subsidiaries have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and the instructions to Form 10-QSB and, therefore, do not include all information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles. We suggest that these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Form 10-KSB for the year ended February 29, 2004.

In the opinion of management, these financial statements reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation of the financial position as of November 30, 2004, results of operations, and cash flows for the interim periods presented. Operating results for the three months and nine months ended November 30, 2004 are not necessarily indicative of the results that may be expected for the full year.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Company is presented to assist in understanding our financial statements. The financial statements and notes are representations of the Company's management who are responsible for their integrity and objectivity and have prepared them in accordance with our customary accounting practices.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Odyssey Marine, Inc., Odyssey Marine Services, Inc., OVH, Inc, and Odyssey Retriever, Inc. All significant inter-company transactions and balances have been eliminated.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Revenue Recognition and Accounts Receivable

Revenue from artifact sales is recognized at the point of sale when legal title transfers. For artifact sales, legal title transfers when product is shipped to customers. Bad debts are recorded as identified. We have not experienced any bad debts and no allowance for bad debts has been recorded.

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash Equivalents

Cash equivalents include cash on hand and cash in banks. We also consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, prepaid expense, investments, accounts payable, accrued expense, loan payable and mortgage payable approximate fair value. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that we could realize in a current market exchange.

Inventory

Our inventory consists primarily of artifacts from the SS Republic shipwreck and the Tortugas artifacts collection. The Company has accounted for its inventory at the lower of cost or market.

Long-Lived Assets

Our policy is to recognize impairment losses relating to long-lived assets in accordance with Financial Accounting Standards Board No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" based on several factors, including, but not limited to, management's plans for future operations, recent operating results and projected cash flows. To date no such impairment has been indicated.

Depreciation

Property and equipment is stated at historical cost. Depreciation is provided using the straight-line method at rates based on the assets' estimated useful lives. The depreciation charge for the nine months ended November 30, 2004 was \$641,243. Of this amount, \$327,363 was capitalized as inventory.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if dilutive securities and other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in our earnings.

At November 30, 2004, potential common shares, calculated using the treasury stock method, were included in the computation of diluted EPS as follows:

	Three Months Ended Nov 30, 04	Nine Months Ended Nov 30, 04
	-----	-----
Weighted average shares outstanding	38,530,599	38,385,644
Potential common shares	711,161	1,974,505
	-----	-----
Weighted average common and potential common shares outstanding	39,241,760	40,360,149
	=====	=====

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At November 30, 2003 potential common shares were excluded in the computation of diluted EPS because their inclusion would have had an anti-dilutive effect on EPS. At November 30, 2003, there were options for 2,415,000 shares and warrants for 4,880,000 shares that were exercisable between \$.30 and \$2.50 per share which were thus excluded from the computation of diluted EPS.

Stock-Based Compensation

We account for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and have adopted the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No. 123." Under APB No. 25, when the exercise price of our employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. Accordingly, no compensation expense has been recognized in the consolidated financial statements in connection with employee stock option grants.

The following table illustrates the effect on net income and earnings per share had we applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	Three Months Ended November 30 2004	2003
	-----	-----
Net income(loss):		
As reported	\$ 2,412,189	\$ (1,838,886)
Pro forma adjustment for compensation, net of tax	\$ (217,243)	(256,209)
	-----	-----
Pro forma	\$ 2,194,946	\$ (2,095,095)
	=====	=====
Basic income(loss) per share:		
As reported	\$ 0.06	\$ (0.06)
Pro forma	\$ 0.06	\$ (0.07)
Diluted income(loss) per share:		
As reported	\$ 0.06	\$ (0.06)
Pro forma	\$ 0.06	\$ (0.07)

	Nine Months Ended November 30 2004	2003
	-----	-----
Net income(loss):		
As reported	\$ 5,287,031	\$ (3,805,218)
Pro forma adjustment for compensation, net of tax	\$ (681,857)	(411,093)
	-----	-----
Pro forma	\$ 4,605,174	\$ (4,216,257)
	=====	=====
Basic income(loss) per share:		
As reported	\$ 0.14	\$ (0.12)
Pro forma	\$ 0.12	\$ (0.14)
Diluted income(loss) per share:		
As reported	\$ 0.13	\$ (0.12)
Pro forma	\$ 0.11	\$ (0.14)

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The weighted average estimated fair value of stock options granted during the three months ended November 30, 2004 was \$2.70. No options were granted during the three month period ending November 30, 2003. These amounts were determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the life of the option. The assumptions used in the Black-Scholes model were as follows for stock options granted in the three months ended November 30:

	2004	2003
Risk-free interest rate	3.72%	N/A
Expected volatility of common stock	465.8%	N/A
Dividend Yield	0%	N/A
Expected life of options	5 years	N/A

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. Our options do not have the characteristics of traded options, therefore, the option valuation models do not necessarily provide a reliable measure of the fair value of our options.

Equity instruments issued, if any, to non-employees in exchange for goods, fees and services are accounted for under the fair value based method of SFAS No. 123.

Income Taxes

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

NOTE C - ACCOUNTS RECEIVABLE

Trade accounts receivable of \$1,643,125 resulted from the sale of inventory and are due in 30 days or less.

NOTE D - INVENTORY

At November 30, 2004, our inventory was \$9,453,799 and consisted primarily of SS Republic artifacts. Of this amount \$7,355,955 is classified as current assets based upon our anticipated sales plan.

NOTE E - INCOME TAXES

As of November 30, 2004, the Company had consolidated income tax net operating loss ("NOL") carryforwards for federal tax purposes of approximately \$17,900,000. The NOL will expire in various years ending through the year

2024.

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE E - INCOME TAXES - continued

For the nine months ended November 30, 2004 and 2003, the components of the provision for income taxes (benefits) are attributable to continuing operations as follows:

	November 30, 2004	November 30, 2003
	-----	-----
Current		
Federal	\$ 0	\$ 0
State	0	0
	-----	-----
	\$ 0	\$ 0
Deferred		
Federal	\$ 2,980,125	\$ 0
State	481,157	0
	-----	-----
	\$ 3,461,282	\$ 0
	=====	=====

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

Deferred tax assets:

Net operating loss	
and capital loss carryforwards	\$6,798,944
Less: valuation allowance	(10,993)

	\$6,787,951

Deferred tax liability:

Excess of tax over book depreciation	\$ 539,591
Artifacts recovery costs	3,418,331

	\$3,957,922

Net deferred tax asset	\$2,830,029
Less: current net deferred tax asset	1,934,887

Net non-current deferred tax asset	\$ 895,142
	=====

As reflected above, the Company has recorded a net deferred tax asset of \$2,830,029 at November 30, 2004. Management has determined that a valuation allowance is necessary because of the uncertainty in the utilization of its capital loss carryforwards. No valuation allowance is provided for its net operating loss carryforwards since management believes the Company will be profitable from sales and will generate taxable income sufficient to utilize the loss carryforwards. The amount of the net deferred tax assets considered

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realizable, however, could change in the near future if estimates of future taxable income during the carryforward period are changed.

The change in the valuation allowance is as follow:

November 30, 2004	\$10,993
February 29, 2004	\$ -

Change in valuation allowance	\$10,993
	=====

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE E - INCOME TAXES - continued

Income taxes for the nine months ended November 30, 2004 and November 30, 2003 differ from the amounts computed by applying the effective federal income tax rate of 34% to income before income taxes as a result of the following:

	2004	2003
	-----	-----
Federal income tax computed at US statutory rate	\$2,974,426	\$ -
State income taxes net of federal benefits	393,640	-
Nondeductible expense	8,165	-
Change in valuation allowance	10,993	-
Effects of:		
Change in rate estimate	101,535	-
Change in NOL estimate	87,031	-
Other, net	(114,508)	-
	-----	-----
	\$3,461,282	\$ -
	=====	=====

NOTE F - BUILDING AND LAND

On July 23, 2004, we purchased a 23,500 square foot two story office building for \$3,058,770 to serve as our corporate and operations headquarters. With tenant improvements the facility is recorded on the books at a cost of \$3,255,581. We currently lease approximately 25% of the space to a tenant.

NOTE G - MORTGAGE PAYABLE

On July 23, 2004, we entered into a mortgage loan for \$2,000,000 with the Bank of Tampa for the purchase of our corporate office building. The mortgage loan is due in 10 years and monthly payments are based on a 20 year amortization schedule. Interest, initially at 4.94%, will be adjustable semiannually based upon changes in the LIBOR (London Interbank Offered Rate) index. Interest expense was \$25,309 and \$37,812, respectively, for the three months and nine months ended November 30, 2004. Of the principal amount due on the mortgage \$100,000 is classified as current liability. Future principal payments will be \$8,333 through December 31, 2004 and will be \$100,000 per year for the years 2005 through 2009.

NOTE H - LOAN PAYABLE

Revolving Credit Facility

On June 24, 2004, the Company entered into a \$5 million revolving credit

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facility from The Bank of Tampa (the "Bank"). The interest-only credit line carries a floating interest rate of the bank's published prime rate and a term of one year. It is secured by a portion of the numismatically significant gold coins recovered by us from the SS Republic shipwreck, and by any of our funds on deposit with the Bank. At November 30, 2004 the balance due on the Loan Payable was \$73,700. Interest expense was \$7,368 and \$11,105, respectively, for the three months and nine months ended November 30, 2004.

NOTE I - COMMITMENTS AND CONTINGENCIES

Commitments

During June 2004, we entered into an irrevocable standby letter of credit for an amount up to \$334,000 which expires on December 31, 2004. As of November 30th 2004 there were no remaining commitments related to the letter of credit.

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During October 2004 we committed to purchase coin boxes for February 2005 delivery in the amount of \$358,450. A deposit of \$89,613 was paid at the time of order and the balance will be due upon delivery.

During November 2004 we entered into an agreement for \$315,000 for the design of a shipwreck attraction and exhibits. Also, we have committed for the fabrication of two shipwreck traveling exhibits for \$3.2 million which are expected to open in mid 2005.

The company maybe subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Management currently believes that these claims and suits will not have a material adverse impact on its financial position or its results of operations.

NOTE J - RELATED PARTY TRANSACTIONS

A construction company, owned by a relative of a company officer, performed building renovations amounting to \$182,042.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Information

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. The statements regarding Odyssey Marine Exploration, Inc. and its subsidiaries contained in this report that are not historical in nature, particularly those that utilize terminology such as "may," "will," "should," "likely," "expects," "anticipates," "estimates," "believes" or "plans," or comparable terminology, are forward-looking statements based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements.

Important factors known to us that could cause such material differences are identified in our Annual Report of Form 10-KSB for the period ended February 29, 2004, under the heading "RISK FACTORS". We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future reports to the SEC.

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Overview

Odyssey Marine Exploration, Inc. is engaged in the archaeologically sensitive exploration and recovery of deep-water shipwrecks throughout the world. We employ advanced state-of-the-art technology including side scan sonar, remotely operated vehicles, or ROVs, and other advanced technology, which enables us to locate and recover shipwrecks at depths that were previously unreachable in an economically feasible manner. The cost of mobilizing vessels, complex equipment and a professional team of technicians, archaeologists, conservators and scientists capable of conducting deep-water search and recovery is very high. Therefore, our strategy is to build a "pipeline" of well-researched projects and then move equipment and personnel from project to project in a cost-effective and efficient manner.

During the quarter ended November 30, 2004 the Odyssey team continued to excavate the SS Republic shipwreck site. To date more than 51,000 coins and approximately 14,000 artifacts have been recovered. At this point we have thoroughly searched the hull of the shipwreck and are confident that there is no specie remaining in that area. No purser's safe was found in the hull area.

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The coins recovered to date represent approximately 25% of the "\$400,000 in specie" (face value in 1865) that historical research indicates was on board the Republic when she sank. It is possible that the balance of the specie, believed to have been on board the ship, may be in the debris field leading from the location of sinking to the ship's final resting place. A detailed search of this area is planned for January 2005, prior to departing for our next project. Based on our current understanding of the debris field, we believe that it should take no more than 10 to 20 operational days to complete the search of this area.

The artifacts recovered from the SS Republic site include coins, bottles, domino sets, religious artifacts, ceramics, pottery and some personal effects. After artifacts are recovered, they are tagged, logged, measured and stabilized aboard the Odyssey Explorer before being transferred to the conservation facility. The majority of the Republic artifacts have been conserved and are being prepared for sale or exhibition.

The RV Odyssey has been deployed to the Western Mediterranean, where it has commenced operations with its new suite of ROV and acoustic positioning technology. We plan on the Odyssey Explorer leaving for the Western Mediterranean after completion of the Republic debris field search. There it will take over operations which were initiated by the RV Odyssey.

To date the majority of our revenue has been generated through the sale of coins from the SS Republic. These sales have been accomplished through a network of coin dealers and marketers. In addition to our existing dealers, our marketing team is testing a plan for telemarketing of Republic coins and other merchandise associated with shipwrecks.

Work is continuing on the design and fabrication of our planned traveling exhibits. We will be announcing venues as soon as the final contracts are in place. We expect to begin generating revenues from the traveling exhibits in the second or third quarter of 2005.

Critical Accounting Policies and Changes to Accounting Policies

The preparation of financial statements in conformity with accounting

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principles generally accepted in the United States 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.

There have been no material changes in our critical accounting estimates since November 30, 2004, nor have we adopted any accounting policy that has or will have a material impact on our consolidated financial statements. For further discussion of our accounting policies see Footnote 2 "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-QSB and in our Annual Report on Form 10-KSB for the fiscal year ended February 29, 2004.

Results of Operations

The following is a discussion of the historical consolidated financial condition and results of operations of Odyssey Marine Exploration, Inc. and its wholly owned subsidiaries and should be read in conjunction with the consolidated financial statements and notes thereto set forth in this Form 10-QSB. Additional information concerning factors that could cause actual results to differ materially from those in the Company's forward looking statements is contained from time to time in the Company's SEC filings, including but not limited to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 2004.

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Three months ended November 30, 2004 compared to the three months ended November 30, 2003

The dollar values discussed below, except as otherwise indicated, are approximations to the nearest \$100,000. For more detail refer to the Financial Statements in Item 1.

Revenues

Revenues for 2004 consisted primarily of coin sales of \$6.3 million. Revenues for 2003 represented miscellaneous sales from merchandise.

Cost of Sales

Cost of Sales for 2004 of \$.3 million consisted of shipwreck recovery costs, grading, conservation and packaging, and shipping costs associated with coin sales. Cost of sales as a percentage of revenue for 2004 was 5%. The major factors that contribute to cost of sales as a percentage of revenue include capitalized ship recovery costs, number of artifacts recovered, and revenue per artifact sold. Artifact sales during 2004 consisted of both gold and silver coins. Cost of sales as a percentage of revenue will change depending on the sales mix because of the significantly different unit sales prices for gold and silver coins. As of November 2004, the capitalized cost of recovery per artifact, excluding grading, conservation, packaging and shipping costs, was approximately \$130. Approximately 65,000 artifacts have been recovered to-date from the SS Republic. The lower cost of sales for the quarter was attributable to a higher mix of gold coin sales.

Operating Expenses

Increase (Decrease)
Dollar Percent

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(Dollars in thousands)	2004 ----- (unaudited)	2003 ----- (unaudited)	Change -----	Change -----
Operations & research	\$ 691	\$ 1,247	\$ 556	45 %
Marketing, General & Administrative	1,273	528	(745)	(141)%
Depreciation	137	112	(25)	(22)%
	-----	-----	-----	-----
	\$2,101	\$1,887	\$ (214)	(11)%
	=====	=====	=====	=====

Operations and research expenses were \$.7 million in 2004, compared to \$1.2 million in 2003. Our recovery vessel was purchased in August 2003 when deployment operations began. Ship recovery costs were capitalized beginning in November 2003 associated with the discovery of artifacts on the SS Republic. Operations expenses were higher in 2003 because deployment costs were not capitalized. Total operations & research costs in 2004 before capitalization were \$2.1 million compared to \$1.7 in 2003. The increase in 2004 before capitalization was primarily due to recovery operations for the vessel Odyssey Explorer during the period. Vessel operating costs in 2004 for the Odyssey Explorer averaged approximately \$.5 million per month.

Marketing, general and administrative expenses were \$1.3 million in 2004 as compared to \$.5 million in 2003. The major increase resulted from expansion of our corporate support functions due to execution of our business plan primarily associated with the recovery of the SS Republic artifacts. Of the increase, \$.5 million was the result of increased general and administrative expenses consisting primarily of personnel-related and corporate communication expenses, and \$.2 million was due to the expansion of our marketing and sales function including attraction development and selling commissions for artifacts.

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Depreciation increases were the result of acquisitions of additional property and equipment.

Provision for Income Taxes (Benefit)

Federal and state income taxes for 2004 have been provided for at an estimated annual effective rate of 37.6%. For 2003, we did not have any taxable income. Net operating loss carryforwards resulted in a net deferred tax asset in 2003. However, we included a valuation allowance of 100% against the net deferred tax asset in 2003 because of the uncertainty of future taxable income.

Nine months ended November 30, 2004 compared to the nine months ended November 30, 2003

The dollar values discussed below, except as otherwise indicated, are approximations to the nearest \$100,000. For more detail refer to the Financial Statements in Item 1.

Revenues

Revenues for 2004 consisted of artifact sales of \$15.9 million. Revenues for 2003 represented miscellaneous sales from merchandise and search operations.

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Cost of Sales

Cost of Sales for 2004 of \$1.8 million consisted of shipwreck recovery costs, grading, conservation and packaging, and shipping costs associated with coin sales. Cost of sales as a percentage of revenue for 2004 was 11%. The major factors that contribute to cost of sales as a percentage of revenue include capitalized ship recovery costs, number of artifacts recovered, and revenue per artifact sold. Artifact sales during 2004 consisted of gold and silver coins. Cost of sales as a percentage of revenue will change depending on the sales mix because of the significantly different unit sales prices for gold and silver coins. As of November 2004, the capitalized cost of recovery per artifact, excluding grading, conservation, packaging and shipping costs, was approximately \$130. Approximately 65,000 artifacts have been recovered to-date from the SS Republic.

Operating Expenses

(Dollars in thousands)	2004 ----- (unaudited)	2003 ----- (unaudited)	Increase (Decrease)	
			Dollar Change -----	Percent Change -----
Operations & research	\$ 1,650	\$2,168	\$ 518	24 %
Marketing, general &				
Administrative	3,338	1,453	(1,885)	(130)%
Depreciation	314	198	(116)	(59)%
	-----	-----	-----	-----
	\$5,302	\$3,819	\$(1,483)	(39)%
	=====	=====	=====	=====

Operations and research expenses were \$1.7 million in 2004, compared to \$2.2 million in 2003. Our recovery vessel was purchased in August 2003 when deployment operations began. Ship recovery costs were capitalized beginning in November 2003 associated with the discovery of artifacts on the SS Republic. Total operations & research costs in 2004 before capitalization were \$5.8 million compared to \$2.6 million in 2003. The increase in 2004 before capitalization was primarily due to recovery operations for the vessel Odyssey Explorer during the period; additional archaeological, conservation, and

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research expenses; and search operations by the vessel RV Odyssey. Vessel operating costs in 2004 for the Odyssey Explorer averaged approximately \$.5 million per month.

Marketing, general and administrative expenses were \$3.3 million in 2004 as compared to \$1.5 million in 2003. The major increase resulted from expansion of our corporate support functions due to execution of our business plan primarily associated with the recovery of the SS Republic artifacts. Of the increase, \$1.3 million was the result of increased general and administrative expenses consisting primarily of personnel-related, insurance and corporate communications expenses, and \$.6 million was due to the expansion of our marketing and sales function including attraction development and selling commissions for artifacts.

Depreciation increases were the result of acquisitions of additional property and equipment.

Provision for Income Taxes (Benefit)

Federal and state income taxes for 2004 have been provided for at an

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estimated annual effective rate of 37.6%. For 2003, we did not have any taxable income. Net operating loss carryforwards resulted in a net deferred tax asset in 2003. However, we included a valuation allowance of 100% against the net deferred tax asset in 2003 because of the uncertainty of future taxable income.

Liquidity and Capital Resources

(Dollars in thousands)	(unaudited)
Summary of Cash Flows:	2004

Net cash provided by operating activities	\$ 2,849
Net cash used by investing activities	\$ (3,673)
Net cash provided by financing activities	\$ 3,067

Net increase in cash and cash equivalents	\$ 2,242
Beginning cash and cash equivalents	\$ 1,351

Ending cash and cash equivalents	\$ 3,594

Cash and cash equivalents were \$3.6 million at November 30, 2004, an increase of \$2.2 million from the February 29, 2004 balance of \$1.4 million. Of the \$2.2 million increase in cash for the nine months of 2004, \$3.7 million was used for investing activities which was offset by \$3.1 provided from financing activities and \$2.8 million from operating activities.

Cash provided from operating activities consisted of \$5.3 million of net income and non-cash expenses of \$3.8 million representing deferred income taxes and depreciation. Cash used in operating activities of \$6.2 million represented net changes in balance sheet accounts primarily consisting of an increase in inventory costs and accounts receivable. Accrued expense liabilities of \$1.1 million consisted primarily of grading and conservation costs of inventory incurred but not paid until coins are shipped.

Cash used in investing activities of \$3.7 million consisted of \$2.0 million of capital expenditures for purchases of property and equipment primarily associated with our marine operations and corporate expansion efforts, \$.4 million for development of attractions, and \$1.3 million for the purchase of an existing office building and tenant improvements. A \$2.0 million mortgage payable was entered into to provide the balance of the funds required for the purchase of the building. Approximately 50% of the building is being utilized as our corporate headquarters, 25% is currently leased and 25% is available for lease or expansion.

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Cash provided by financing activities of \$3.1 million included \$1.5 million short term borrowing against our credit facility offset by a loan repayment of \$1.4 million, sales of marketable securities of \$2 million and proceeds from a combination of warrants and stock options exercised for the issuance of common stock of \$1 million.

As of November 30, 2004, we had working capital of \$12.6 million as indicated by current assets exceeding current liabilities. We believe the value of our artifact inventory as of November 30, 2004, as shown in the financial statements, is significantly less than the net proceeds we would expect to receive from the sale of the artifacts. We have pledged a portion of the numismatically significant gold coins as collateral for a \$5 million secured credit facility through The Bank of Tampa. This credit facility will

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be used to cover any short-term cash requirements as necessary. As of November 30, 2004, we had loans outstanding of \$73,700 against the credit facility. We have also committed to the fabrication of two traveling exhibits for \$3.2 million. The planned exhibits will showcase the history of shipwrecks featuring the SS Republic. Interactive elements and exhibits will present the science and technology the company utilizes to conduct deep ocean shipwreck searches and archaeological excavations. We anticipate the funding for the exhibits will come from bank financing or through revenue generated from the sale of recovered cargoes. Also, design of a fixed shipwreck attraction has been completed and we continue to evaluate financing alternatives with a plan to begin construction later in 2005.

ITEM 3. CONTROLS AND PROCEDURES

As of November 30, 2004, under the supervision and with the participation of the Company's Chief Executive Officer and the Chief Financial Officer, management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of November 30, 2004. There were no changes in internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

On or about December 14, 2004 a complaint was filed against seven defendants including the Company in the Court of Common Pleas in the Ninth Judicial Circuit, County of Charleston, in the State of South Carolina. The complaint was filed by Republic & Eagle Associates, Inc. and Sea Miners, Inc. against John Morris, Greg Stemm, John Lawrence, John Balch, Daniel Bagley, Seahawk Deep Sea Technologies, Inc. ("Seahawk") and the Company. The plaintiffs allegations include breach of fiduciary duty, civil conspiracy and breach of contract based primarily upon an alleged contract(s) between the plaintiffs and Seahawk dated May 16, 1995 dealing with the search for the S.S. Republic. The plaintiffs allege that their research which was provided to Seahawk led to the discovery of the S.S. Republic and they seek an unspecified amount of damages and public recognition of their contribution.

Management believes that the law suit is without merit with respect to the Company and they intend to vigorously defend the action.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

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ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

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ITEM 5. Other Information.

None.

ITEM 6. Exhibits.

- | | | |
|------|--|-------------------------------|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith electronically |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith electronically |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 | Filed herewith electronically |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 | Filed herewith electronically |

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Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ODYSSEY MARINE EXPLORATION, INC.

Date: January 14, 2005

By: /s/ Michael J. Holmes
Michael J. Holmes, Chief Financial
Officer and Authorized Officer

