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ODYSSEY MARINE EXPLORATION INC  
Form 10QSB  
October 14, 2004

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 August 31, 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 September 30, 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 AUGUST 31, 2004 - Unaudited

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### ASSETS

#### CURRENT ASSETS

|                      |              |
|----------------------|--------------|
| Cash                 | \$ 3,153,078 |
| Accounts receivable  | 2,098,032    |
| Inventory            | 5,199,310    |
| Prepaid expense      | 345,797      |
| Deferred tax asset   | 2,600,207    |
| Other current assets | 27,427       |
|                      | -----        |
| Total current assets | 13,423,851   |

#### PROPERTY AND EQUIPMENT

|                               |           |
|-------------------------------|-----------|
| Equipment and office fixtures | 5,802,264 |
| Building and land             | 3,140,802 |
| Accumulated depreciation      | (982,936) |
|                               | -----     |
|                               | 7,960,130 |

#### OTHER ASSETS

|                         |           |
|-------------------------|-----------|
| Artifacts               | 396,879   |
| Inventory (non current) | 2,471,556 |
| Deposits                | 255,270   |
| Deferred tax asset      | 1,723,000 |
| Attraction development  | 238,104   |
|                         | -----     |

|                    |           |
|--------------------|-----------|
| Total other assets | 5,084,809 |
|--------------------|-----------|

|              |              |
|--------------|--------------|
| Total assets | \$26,468,790 |
|--------------|--------------|

### LIABILITIES AND STOCKHOLDERS' EQUITY

#### CURRENT LIABILITIES

|                  |            |
|------------------|------------|
| Accounts payable | \$ 951,959 |
| Accrued expenses | 1,083,669  |
| Loan payable     | 1,523,700  |
| Mortgage payable | 100,000    |
| Tenant deposits  | 19,098     |
|                  | -----      |

|                           |           |
|---------------------------|-----------|
| Total current liabilities | 3,678,426 |
|---------------------------|-----------|

#### LONG TERM LIABILITIES

|   |           |
|---|-----------|
| Mortgage payable  | 1,891,667 |
| Deferred income from Revenue Participation Certificates | 887,500   |
|   | -----     |

|                             |           |
|-----------------------------|-----------|
| Total long term liabilities | 2,779,167 |
|-----------------------------|-----------|

|                   |           |
|-------------------|-----------|
| Total liabilities | 6,457,593 |
|-------------------|-----------|

#### STOCKHOLDERS' EQUITY

|   |             |
|---|-------------|
| Preferred stock - \$.0001 par value; 9,300,000<br>shares authorized; none outstanding                                       | -           |
| Preferred stock series A convertible - \$.0001 par value;<br>510,000 shares authorized; none issued<br>and none outstanding | -           |
| Common stock - \$.0001 par value; 100,000,000 shares<br>authorized; 38,530,599 issued and outstanding                       | 3,853       |
| Additional paid-in capital  | 26,430,931  |
| Accumulated deficit   | (6,423,587) |
|   | -----       |

|                            |            |
|----------------------------|------------|
| Total stockholders' equity | 20,011,197 |
|----------------------------|------------|

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Total liabilities and stockholder's equity                   \$26,468,790  
=====

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 August 31, |             |
|---|-------------------------------|-------------|
|   | 2004                          | 2003        |
| REVENUE   | \$ 6,141,068                  | \$ 11,235   |
| COST OF SALES   | 577,236                       | 183         |
|   | 5,563,832                     | 11,052      |
| OPERATING EXPENSES                                      |                               |             |
| Operations & research                                   | 480,601                       | 696,984     |
| Marketing, general & administrative                     | 1,008,592                     | 436,442     |
| Depreciation  | 102,981                       | 54,849      |
|   | 1,592,174                     | 1,188,276   |
| Total operating expenses                                |                               |             |
| INCOME (LOSS) FROM OPERATIONS                           | 3,971,658                     | (1,177,223) |
| OTHER INCOME (EXPENSE)                                  |                               |             |
| Interest income   | 722                           | 6,421       |
| Interest expense  | (16,240)                      | (108,316)   |
| Other   | 11,182                        | 5,736       |
|   | (4,336)                       | (96,159)    |
| Total other income (expense)                            |                               |             |
| INCOME (LOSS) BEFORE INCOME TAXES                       | 3,967,322                     | (1,273,382) |
| Income tax (provision)                                  | (1,559,313)                   | -           |
| NET INCOME (LOSS)                                       | 2,408,009                     | (1,273,382) |
|   | =====                         | =====       |
| EARNINGS (LOSS) PER SHARE                               |                               |             |
| Basic   | \$ 0.06                       | \$ (0.04)   |
| Diluted   | \$ 0.06                       | \$ (0.04)   |
| Weighted average number of common<br>shares outstanding |                               |             |
| Basic   | 38,467,012                    | 29,056,032  |
| Diluted   | 39,719,740                    | 29,056,032  |

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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

|  | Six Months Ended August 31, |             |
|--|-----------------------------|-------------|
|  | 2004                        | 2003        |
|  | -----                       | -----       |
| REVENUE  | \$ 9,578,629                | \$ 70,602   |
| COST OF SALES  | 1,528,717                   | 183         |
|  | -----                       | -----       |
| GROSS PROFIT   | 8,049,912                   | 70,419      |
| OPERATING EXPENSES                                   |                             |             |
| Operations & research                                | 959,065                     | 942,397     |
| Marketing, general & administrative                  | 2,065,241                   | 904,375     |
| Depreciation   | 177,238                     | 85,871      |
|  | -----                       | -----       |
| Total operating expenses                             | 3,201,544                   | 1,932,643   |
| INCOME (LOSS) FROM OPERATIONS                        | 4,848,368                   | (1,862,224) |
| OTHER INCOME (EXPENSE)                               |                             |             |
| Revenue participation expense                        | -                           | (12,986)    |
| Interest income                                      | 1,601                       | 12,370      |
| Interest expense                                     | (16,240)                    | (109,227)   |
| Other  | 9,218                       | 5,736       |
|  | -----                       | -----       |
| Total other income (expense)                         | (5,421)                     | (104,107)   |
|  | -----                       | -----       |
| INCOME (LOSS) BEFORE INCOME TAXES                    | 4,842,947                   | (1,966,331) |
| Income tax (provision)                               | (1,968,104)                 | -           |
|  | -----                       | -----       |
| NET INCOME (LOSS)                                    | 2,874,843                   | (1,996,331) |
|  | =====                       | =====       |
| EARNINGS (LOSS) PER SHARE                            |                             |             |
| Basic  | \$ 0.08                     | \$ (0.07)   |
| Diluted  | \$ 0.07                     | \$ (0.07)   |
| Weighted average number of common shares outstanding |                             |             |
| Basic  | 38,313,955                  | 29,056,032  |
| Diluted  | 40,715,763                  | 29,056,032  |

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

|  | Six Months Ended August 31, |                |
|--|-----------------------------|----------------|
|  | 2004                        | 2003           |
|  | -----                       | -----          |
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                             |                |
| Net Income (Loss)  | \$ 2,874,843                | \$ (1,966,331) |
| Adjustments to reconcile net loss to<br>net cash used by operating activity: |                             |                |
| Deferred income taxes  | 1,968,104                   | -              |
| Common Stock issued for:   |                             |                |
| Services   | -                           | 74,150         |
| Officer and director compensation  | -                           | 50,600         |
| Interest payable   | -                           | 108,750        |
| Depreciation   | 177,238                     | 85,871         |
| Gain on disposal of equipment  | -                           | (5,736)        |
| Interest income related parties  | -                           | (10,494)       |
| Inventory  | (3,796,129)                 | (1,968)        |
| (Increase) decrease in:  |                             |                |
| Accounts receivable  | (2,095,203)                 | -              |
| Advances, prepaids, deposits   | (63,659)                    | (547,839)      |
| Increase(decrease) in:   |                             |                |
| Accounts payable   | (81,567)                    | 158,200        |
| Customer deposits  | 19,098                      | -              |
| Accrued expenses   | 966,460                     | 11,009         |
|  | -----                       | -----          |
| NET CASH(USED) IN OPERATING ACTIVITIES                                       | (30,815)                    | (2,043,788)    |
|  | -----                       | -----          |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |                             |                |
| Purchase of property and equipment   | (1,325,776)                 | (2,241,171)    |
| Attraction development   | (238,104)                   | -              |
| Purchase of building and land  | (1,140,802)                 | -              |
|  | -----                       | -----          |
| NET CASH (USED) IN INVESTING ACTIVITIES                                      | (2,704,682)                 | (2,241,171)    |
|  | -----                       | -----          |
| CASH FLOWS FROM FINANCING ACTIVITIES:  |                             |                |
| Proceeds from:   |                             |                |
| Issuance of common stock   | 1,030,313                   | 5,157,625      |
| Related party loans receivable   | -                           | 38,610         |
| Loan payable   | 1,523,700                   | 978,750        |
| Sale of marketable securities  | 1,991,555                   | -              |
| Repayment of note payable to related party                                   | -                           | (2,144)        |
| Repayment of mortgage payable  | (8,333)                     |                |

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|   |              |              |
|---|--------------|--------------|
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 4,537,235    | 6,172,841    |
| NET INCREASE IN CASH                      | 1,801,738    | 1,887,882    |
| CASH AT BEGINNING OF PERIOD               | 1,351,340    | 785,559      |
| CASH AT END OF PERIOD                     | \$ 3,153,078 | \$ 2,673,441 |
| SUPPLEMENTARY INFORMATION:                |              |              |
| Interest paid                             | \$ 8,607     | \$ 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 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 \$167,987. 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 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.

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 August 31, 2004, results of operations, and cash flows for the interim periods presented. Operating results for the three months and six months ended August 31, 2004 are not necessarily indicative of the results that may be expected for the full year.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES



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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.

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## 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.

#### 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

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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.

### 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 August 31 2004, potential common shares, calculated using the treasury stock method, were included in the computation of diluted EPS as follows:

|  | Three Months<br>Ending Aug 31, 04<br>----- | Six Months<br>Ending Aug 31, 04<br>----- |
|--|--|--|
| Weighted average shares outstanding                                | 38,467,012                                 | 38,313,955                               |
| Potential common shares  | 1,252,728                                  | 2,401,808                                |
|  | -----                                      | -----                                    |
| Weighted average common and potential<br>common shares outstanding | 39,719,740<br>=====                        | 40,715,763<br>=====                      |

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

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

At August 31, 2003 potential common shares were excluded in the computation of diluted EPS because their inclusion would have had an antidilutive effect on EPS. At August 31, 2003, there were options for 1,885,000 shares and warrants for 230,000 shares that were exercisable between \$0.30 and \$1.40 per share which were thus excluded from the computation of diluted EPS. On August 31, 2003, all of the other exercisable stock options and stock warrants were excluded from the computation of diluted EPS because the options exercise prices were greater than the average market price of the common shares.

#### 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

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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 August 31<br>2004 | 2003           |
|--|--------------------------------------|----------------|
|  | -----                                | -----          |
| Net income(loss):                                    |                                      |                |
| As reported  | \$ 2,408,009                         | \$ (1,273,382) |
| Pro forma adjustment for<br>compensation, net of tax | \$ (206,589)                         | (45,500)       |
| Pro forma  | \$ 2,201,420                         | \$ (1,318,882) |
|  | =====                                | =====          |
| Basic income(loss) per share:                        |                                      |                |
| As reported  | \$ 0.06                              | \$ (0.04)      |
| Pro forma  | \$ 0.06                              | \$ (0.05)      |
| Diluted income(loss) per share:                      |                                      |                |
| As reported  | \$ 0.06                              | \$ (0.04)      |
| Pro forma  | \$ 0.06                              | \$ (0.05)      |
|  |                                      |                |
|  | Six Months Ended August 31<br>2004   | 2003           |
|  | -----                                | -----          |
| Net income(loss):                                    |                                      |                |
| As reported  | \$ 2,874,843                         | \$ (1,966,331) |
| Pro forma adjustment for<br>compensation, net of tax | \$ (464,614)                         | (154,830)      |
| Pro forma  | \$ 2,410,229                         | \$ (2,121,161) |
|  | =====                                | =====          |
| Basic income(loss) per share:                        |                                      |                |
| As reported  | \$ 0.08                              | \$ (0.07)      |
| Pro forma  | \$ 0.06                              | \$ (0.05)      |
| Diluted income(loss) per share:                      |                                      |                |
| As reported  | \$ 0.07                              | \$ (0.04)      |
| Pro forma  | \$ 0.06                              | \$ (0.05)      |

### 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 August 31, 2004 and 2003 was \$2.75 and \$1.16 respectively. 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

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stock options granted in the three months ended August 31:

|                                     | 2004    | 2003    |
|-------------------------------------|---------|---------|
|                                     | -----   | -----   |
| Risk-free interest rate             | 3.42%   | 1.74%   |
| Expected volatility of common stock | 475%    | 208%    |
| Dividend Yield                      | 0%      | 0%      |
| Expected life of options            | 5 years | 4 years |

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 \$2,098,032 resulted from the sale of inventory and are due in 30 days or less.

### NOTE D - INVENTORY

At August 31, 2004, our inventory was \$7,670,866 and consisted primarily of SS Republic artifacts. Of this amount \$5,199,310 is classified as current assets based upon our anticipated sales plan.

### NOTE E - INCOME TAXES

As of August 31, 2004, the Company had consolidated income tax net operating loss ("NOL") carryforwards for federal tax purposes of approximately \$20,100,000. The NOL will expire in various years ending through the year 2024.

### NOTE E - INCOME TAXES - continued

For the six month periods ended August 31, 2004 and 2003, the components of the provision for income taxes (benefits) are attributable to continuing

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operations as follows:

|          | August 31, 2004 | August 31, 2003 |
|----------|-----------------|-----------------|
| Current  |                 |                 |
| Federal  | \$ 0            | \$ 0            |
| State    | 0               | 0               |
|          | \$ 0            | 0               |
| Deferred |                 |                 |
| Federal  | \$ 1,696,133    | \$ 0            |
| State    | 271,971         | 0               |
|          | \$ 1,968,104    | 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 | \$7,633,200 |
| Less: valuation allowance      | (10,993)    |
|                                | \$7,622,207 |

Deferred tax liability:

|                                      |             |
|--------------------------------------|-------------|
| Excess of tax over book depreciation | \$ 401,806  |
| Artifacts recovery costs             | 2,897,194   |
|                                      | \$3,299,000 |

|                                      |             |
|--------------------------------------|-------------|
| Net deferred tax asset               | \$4,323,207 |
| Less: current net deferred tax asset | 2,600,207   |
|                                      | \$1,723,000 |

As reflected above, the Company has recorded a net deferred tax asset of \$4,323,207 at August 31, 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 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:

|                               |          |
|-------------------------------|----------|
| August 31, 2004               | \$10,993 |
| February 29, 2004             | \$ -     |
|                               | \$10,993 |
| Change in valuation allowance | \$10,993 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E - INCOME TAXES - continued

Income taxes for the years ended August 31, 2004 and August 31, 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 | \$1,646,602 | \$ -  |
| State income taxes net of federal benefits       | 173,798     | -     |
| Nondeductible expense                            | 5,223       | -     |
| Change in valuation allowance                    | 10,993      | -     |
| Effects of :                                     |             |       |
| Change in rate estimate                          | 101,535     | -     |
| Change in NOL estimate                           | 87,031      | -     |
| Other, net                                       | (57,078)    | -     |
|  | -----       | ----- |
|  | \$1,968,104 | \$ -  |
|  | =====       | ===== |

### 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 improvements the facility is reflected on the books at a cost of \$3,140,802. We plan to occupy approximately one half of the space and lease the remainder of the space.

### 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 \$10,694 for the 3 months ended August 31, 2004. Of the principal amount due on the mortgage \$100,000 is classified as current liability. Future principal payments will be \$34,667 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 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 August 31, 2004, the balance due on the Loan Payable was \$1,523,700. Interest expense was \$3,737 for the 3 months ended August 31, 2004.

### NOTE G - 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.

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.

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 August 31, 2004, the Odyssey team continued to excavate the SS Republic shipwreck site. To date more than 51,000 coins and approximately 11,500 artifacts have been recovered. The face value of recovered coins represents approximately 25% of the "\$400,000 in specie" (face value in 1865) that historical research indicates was on board the Republic when she sank. The artifacts recovered from the site include domino sets, religious artifacts, personal effects, ceramics, pottery and bottles. After artifacts are recovered, they are tagged, logged, measured and stabilized aboard the Odyssey Explorer before being transferred to the conservation facility.

We plan to continue recovery operations on the Republic site until we have located the remainder of the specie believed to be on board or until we are reasonably sure that it does not exist within the context of the wreck site. If the specie is not found on the wrecksite itself, we believe that it 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 will follow. We originally thought this work would be complete by late October or early November. However, we lost a substantial amount of productive time during August and September as a result of the unusual number of hurricanes that came through

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the area, including Hurricane Gaston which formed up directly over the site. We are now planning to complete the Republic exploration during December.

We have recently mobilized the RV Odyssey with advanced new ROV equipment, long baseline acoustic positioning system, transponders and other gear necessary to begin the early stages of the Sussex recovery project. Additionally, we are working with the British Government to make the final

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amendments to the project plan with respect to archaeological staffing based upon the available qualified personnel and certain technical changes based upon the knowledge gained through the recovery operations on SS Republic. The final plan amendments have been submitted and we expect approval very soon. We plan on the RV Odyssey arriving in Gibraltar within the next month to begin the first stages of the project.

Once the preliminary work has been completed, the Odyssey Explorer will continue the recovery operation on the Sussex and the RV Odyssey will be sent to another search and identification operation. Based upon our contract and the revised project plan, there is no requirement for us to recover artifacts in the immediate future.

Our marketing team has developed, and is executing, a plan for Republic coin sales that should continue to produce significant revenue for the company. In addition, plans are being made for the monetization of the other artifacts recovered from the site.

### Critical Accounting Policies and Changes to Accounting Policies

The preparation of financial statements in conformity with accounting 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 May 31, 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.

Three months ended August 31, 2004 compared to the three months ended August 31, 2003



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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 \$6.1 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 \$.6 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 9%. 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.

### Operating Expenses

| (Dollars in thousands)              | 2004<br>-----<br>(unaudited) | 2003<br>-----<br>(unaudited) | Incr (Decr)               |                            |
|-------------------------------------|------------------------------|------------------------------|---------------------------|----------------------------|
|                                     |                              |                              | Dollar<br>Change<br>----- | Percent<br>Change<br>----- |
| Operations & research               | \$ 481                       | \$ 697                       | \$ (216)                  | (31)%                      |
| Marketing, general & administrative | 1,008                        | 436                          | 572                       | 131 %                      |
| Depreciation                        | 103                          | 55                           | 48                        | 88 %                       |
|                                     | -----                        | -----                        | -----                     | -----                      |
|                                     | \$1,592                      | \$1,188                      | \$ 404                    | 34 %                       |
|                                     | =====                        | =====                        | =====                     | =====                      |

Operations and research expenses were \$.5 million in 2004, compared to \$.7 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 \$2.0 million compared to \$.7 in 2003. The increase in 2004 before capitalization was due to ship costs attributed to recovery operations.

Marketing, general and administrative expenses were \$1.0 million in 2004 as compared to \$.4 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 \$.6 million increase, \$.4 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.

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

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### 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 because of the uncertainty of future taxable income.

Six months ended August 31, 2004 compared to the six months ended August 31, 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.

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### Revenues

Revenues for 2004 consisted of coin sales of \$9.6 million. Revenues for 2003 represented miscellaneous sales from merchandise and search operations.

### Cost of Sales

Cost of Sales for 2004 of \$1.5 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 16%. 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.

### Operating Expenses

| (Dollars in thousands)              | 2004<br>-----<br>(unaudited) | 2003<br>-----<br>(unaudited) | Incr (Decr)               |                            |
|-------------------------------------|------------------------------|------------------------------|---------------------------|----------------------------|
|                                     |                              |                              | Dollar<br>Change<br>----- | Percent<br>Change<br>----- |
| Operations & research               | \$ 959                       | \$ 942                       | \$ 17                     | 2%                         |
| Marketing, general & Administrative | 2,065                        | 904                          | 1,161                     | 128%                       |
| Depreciation                        | 177                          | 86                           | 91                        | 106%                       |
|                                     | -----                        | -----                        | -----                     | -----                      |
|                                     | \$3,201                      | \$1,932                      | \$1,269                   | 66%                        |
|                                     | =====                        | =====                        | =====                     | =====                      |

Operations and research expenses were \$1.0 million in 2004, compared to \$.9 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 \$3.7 million compared to \$.9 in 2003. The increase in 2004 before capitalization was primarily due to ship costs attributed to recovery operations and additional archaeological and research efforts.

Marketing, general and administrative expenses were \$2.1 million in 2004 as compared to \$.9 million in 2003. The major increase resulted from

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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 \$1.2 million increase, \$.9 million was the result of increased general and administrative expenses consisting primarily of personnel-related and corporate communications expenses and \$.3 million was due to the expansion of our marketing and sales function.

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 because of the uncertainty of future taxable income.

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### Liquidity and Capital Resources

| (Dollars in thousands)<br>Summary of Cash Flows: | Six Months<br>Ended August 31,<br>2004<br>-----<br>(Unaudited) |
|--|--|
| Net cash used by operating activities            | \$ (31)  |
| Net cash used by investing activities            | \$ (2,704)   |
| Net cash provided by financing activities        | \$ 4,537   |
|  | -----  |
| Net increase in cash and cash equivalents        | \$ 1,802   |
| Beginning cash and cash equivalents              | \$ 1,351   |
|  | -----  |
| Ending cash and cash equivalents                 | \$ 3,153   |
|  | -----  |

Cash and cash equivalents were \$3.2 million at August 31, 2004, an increase of \$1.8 million from the February 29, 2004 balance of \$1.4 million. Of the \$1.8 million of cash provided for the six months of 2004, \$2.7 million was used for investing activities offset by \$4.5 provided by financing activities.

There was a minor amount of net cash used in operating activities. However, cash provided from operating activities consisted of \$2.9 million of net income and non-cash expenses of \$2.1 million representing deferred income taxes and depreciation. Cash used in operating activities of \$5.1 million represented net changes in balance sheet accounts primarily consisting of an increase in inventory costs and accounts receivable.

Cash used in investing activities of \$2.7 million consisted of \$1.3 million of capital expenditures for purchases of property and equipment primarily associated with our marine operations, \$.3 million for development of attractions, and \$1.1 million for the purchase of an existing office building. A \$2.0 million bank mortgage was entered into to provide the balance of the funds required for the purchase of the building. Approximately 50% of the building will be utilized as our corporate headquarters and the other half

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will be leased to tenants.

Cash provided by financing activities of \$4.5 million included \$1.5 million short term borrowing against our credit facility, 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 August 31, 2004, the company had working capital of \$9.7 million as indicated by current assets exceeding current liabilities. We believe the value of our artifact inventory as of August 31, 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 believe sales will provide sufficient working capital to meet our financial commitments and obligations for the remainder of 2004. In addition, 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 which was closed in June 2004. This credit facility will be used to cover any short-term cash requirements as necessary. We are also in the process of conceptual design for both a traveling exhibit featuring the SS Republic and a fixed shipwreck attraction. We anticipate the funding for these operations will come from the exercise of warrants, bank financing or through revenue generated from the sale of recovered cargoes.

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### ITEM 3. CONTROLS AND PROCEDURES.

As of August 31, 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 August 31, 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.

None.

### ITEM 2. Changes in Securities.

None.

### ITEM 3. Defaults Upon Senior Securities.

None.

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

None.

### ITEM 5. Other Information.

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None.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) 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 |

(b) Reports on Form 8-K.

During the quarter ended August 31, 2004, we filed three reports on Form 8-K, as follows:

| Date of Report | Form 8-K Item Numbers |
|----------------|-----------------------|
| July 23, 2004  | Item 2                |
| June 24, 2004  | Items 5 and 7         |
| June 21, 2004  | Items 7 and 12        |

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SIGNATURES

Pursuant to the requirements 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.

ODYSSEY MARINE EXPLORATION, INC.

Date: October 14, 2004

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

