

ODYSSEY MARINE EXPLORATION INC
Form 10KSB/A
June 17, 2005
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB/A

(Amendment No.1)

(Mark one)

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

FOR THE FISCAL YEAR ENDED _____

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM MARCH 1, 2004 TO DECEMBER 31, 2004

Commission File Number 1-31895

ODYSSEY MARINE EXPLORATION, INC.

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

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Nevada
(State or other jurisdiction of
incorporation or organization)

84-1018684
(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. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$17,622,092.

As of March 10, 2005, the Registrant had 41,308,099 shares of Common Stock, \$.0001 Par Value, outstanding, and the aggregate market value of the shares held by non-affiliates on that date was approximately \$88,256,000.

Transitional Small Business Disclosure format: Yes No

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As used in this Transition Report on Form 10-KSB, we, us, our company and Odyssey means Odyssey Marine Exploration, Inc. and our subsidiaries, unless the context indicates otherwise. Previously, Odyssey's fiscal year was the twelve-month period ending on the last day of February. As a result of a change in our fiscal year, Odyssey's 2004 transition period consists of the ten-month period ended December 31, 2004, and thereafter Odyssey's fiscal year will be the twelve-month period ending December 31.

PART I

This Transition Report on Form 10-KSB 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, 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 this report and in our **RISK FACTORS** in Item 1. 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.

ITEM 1. DESCRIPTION OF BUSINESS

Overview of Odyssey

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, that enables us to locate and recover shipwrecks at depths that were previously unreachable in an economically feasible manner.

Odyssey's founders have significant experience in deep ocean shipwreck exploration, and have supervised extensive deep-water archeological excavations with ROVs. In addition to operational experience, our officers have taken a leadership role in the development of a shipwreck exploration industry, having founded the Professional Shipwreck Explorer's Association, served on the United States delegation for the Convention on the Protection of Underwater Cultural Heritage for four consecutive terms, provided advice to various government agencies on shipwreck policy issues in both the United States and abroad, and negotiated the world's first sovereign shipwreck partnering agreement with any government.

Odyssey continues to build on a foundation of shipwreck research, development of political relationships and advancement of techniques for deep ocean search and recovery.

Odyssey is a Nevada corporation which was formed on March 5, 1986.

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Founding Principles

Odyssey was founded on the following principles:

Ships have been lost through the centuries in deep water while carrying intrinsically valuable artifacts and cargoes.

The technology now exists to both find and recover these lost artifacts and cargoes in an archaeologically sound fashion.

The combination of these factors means that a new industry will likely emerge, and we plan to be the leader within this new industry.

Mission and Strategy

Our mission is to become the premier company engaged in deep water shipwreck exploration through the application of state-of-the-art technology and dedication to the preservation of underwater cultural heritage through sound archaeological practices.

The cost of mobilizing and de-mobilizing vessels for a single project could range from \$100,000 to several hundred thousand dollars or more, depending upon the requirements of the project. Such costs include procuring complex equipment, a professional team of technicians, archaeologists, conservators and scientists and integrating the components into a system capable of conducting deep-water search and recovery in an archaeologically sound manner. If a project is undertaken as a single project, the expense of de-mobilizing the equipment and personnel at the conclusion of the search or recovery phases must also be considered. Therefore, our strategy is to build a pipeline of well-researched projects and then move mobilized equipment and personnel from project to project in a cost-effective and efficient manner.

Project Criteria

Since 1994, we have spent much of our time and resources conducting research in an attempt to identify shipwreck projects that meet the following criteria:

The shipwreck must be in deep water, thereby minimizing the possibility that it has been broken up and covered by shifting sands or the target of previous recovery efforts.

The research must indicate that the shipwreck was carrying enough intrinsically valuable cargo to pay for the high cost associated with deep-ocean archaeological recovery, and to provide an attractive return for our investors and stockholders.

The research must provide good navigational information concerning the sinking location in order to minimize the search area and provide a reasonable expectation that the wreck can be found.

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The issues relating to ownership of the shipwreck and its cargo must be resolved or reasonably predictable prior to beginning any recovery in order to minimize potential for litigation.

The United Nations Educational Scientific and Cultural Organization, or UNESCO, has estimated that there are up to 3,000,000 shipwrecks contained within the oceans of the world. Historical records suggest that many were lost with verifiable cargoes of intrinsically valuable material. Of this universe of potential projects, we have identified more than a dozen projects that could be initiated immediately.

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Revenue Sources

Although we believe the majority of our future revenue will continue to be generated through the sales of intrinsically valuable cargoes, we also plan to produce revenue from other activities including marketing shipwreck merchandise, expedition sponsorships, sale of intellectual property rights, adventure tourism, archaeological services, and operation of themed attractions and exhibits. During December 2004 we conducted a test to determine if direct telemarketing was a viable method to sell our ungraded coins and other shipwreck related items. Based upon the test, we have decided to operate a telemarketing sales center.

Active Projects

In the past we have from time to time disclosed information concerning each of our existing and planned search operations. In order to protect the identities of the targets of our planned search operations, we have decided to defer disclosing specific information relating to our search targets until we have located the targeted shipwreck or shipwrecks and determined a course of action to protect our property rights.

We have completed an extensive target development program for our 2005 search season. Our research team has designated five shipwreck targets that will be the focus of upcoming search operations. According to company research, none are believed to be sovereign immune warships pursuant to the Law of the Sea Convention, nor in the territorial waters of any country. Because of this, archaeological documentation and excavation of each site can be started immediately upon discovery.

We believe that only two of the five targets may have any potential insurance claimants, and it is anticipated that they would be resolved in a manner consistent with the resolution of the insurance claims relating to the *SS Republic* described below.

To undertake this search program, we have leased another ship, similar in size and sea-keeping capabilities to our vessel *Odyssey Explorer*, and we have acquired a new, advanced search system, which allows us to search areas at twice the speed of our previous system. It is anticipated the entire area of possibility for these five sites, some of which overlap, can be searched completely during approximately twelve months of search operations, which are scheduled to begin in April 2005. We anticipate that the areas of highest probabilities for two primary targets will be completed within four months. The ship is scheduled to begin mobilization in April 2005, and search operations should begin shortly thereafter.

Odyssey Explorer has recently completed working on the *SS Republic* project described below and has been relocated to the western Mediterranean Sea to begin recovery operation on the *HMS Sussex* project, which is also described below. Our 113-foot search vessel, *RV Odyssey*, is currently conducting search and survey operations in the western Mediterranean Sea as well.

Set forth below is information relating to two of our active projects, the ongoing recovery of the shipwreck *SS Republic* and the recovery of a shipwreck believed to be *HMS Sussex*.

SS Republic Project

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The SS *Republic* was a side-wheel steamer lost in deep water in 1865 after battling a hurricane for two days. The ship, en-route from New York to New Orleans, was reportedly carrying \$400,000 in specie (1865 face value) when it sank. The ship's history includes service in both the Confederate and Union navies during the American Civil War.

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We discovered the shipwreck in the summer of 2003 nearly 1,700 feet below the surface of the Atlantic Ocean approximately 100 miles off the Georgia coast. In March 2004, Odyssey was awarded title and ownership to the SS *Republic* shipwreck and cargo, including the hull, artifacts and the specie that was on board when she sank.

The archaeological excavation has been ongoing since mobilization and deployment of Odyssey's advanced deep ocean archaeological platform until we finished the current recovery operations during February 2005.

Odyssey completed the pre-disturbance survey work on the SS *Republic* shipwreck site in October 2003. Over 4,600 digital still photographs were taken over the course of 23 dives. The detailed photomosaic produced a high-resolution image of the shipwreck site and debris field. This can be used in later study and documentation of the SS *Republic* and serves as a map to help the Odyssey team determine excavation priorities.

Shortly after commencement of archaeological excavation of the site, a substantial number of gold and silver coins were revealed using Odyssey's Sediment Removal and Filtration, or SeRF, system.

During the SS *Republic* excavation, more than 51,000 gold and silver coins and approximately 14,000 artifacts were recovered. Our ROV *ZEUS* completed 262 dives to the shipwreck site and debris field, logging almost 3,500 hours of bottom time.

The excavation system has proven very effective, and the hull of the shipwreck has been excavated and cleaned down to the wooden hull timbers, so that there is no possibility of coins or artifacts remaining in the excavated areas. The operations team has encountered large beams, significant amounts of iron and other obstructions that have slowed down excavation, but our ROV *ZEUS* and the recovery team have proven the effectiveness of the system by clearing every obstacle.

In late 2003, when it appeared that all the coins might have been located in one small area, we anticipated recovering them all within 60 days. We recovered significantly more coins than were expected because many of them were smaller denomination silver half dollar coins. The coin recovery was efficient, allowing for recovery of up to 2,000 coins or more per day, even though they were recovered one at a time. The necessity of excavating the entire shipwreck site in an attempt to locate the balance of the coins, which our research suggests should still be there, required a significantly longer timeframe for the site excavation.

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.

Upon completion of the search of the main hull, we began searching the debris field in order to determine whether a purser's safe, which could have contained the missing specie, could have fallen from the ship as it descended to the bottom of the ocean. While several artifacts were recovered in the debris field search, we determined that it would be prudent to return to the site at a later date with tools better suited to searching the debris field. We do not have this return scheduled at this time, and timing on any additional search operations will depend on the deployment of our search ships and appropriate weather windows. We have been declared the owners of the wreck and there is a federal injunction in place preventing others from disturbing the site in our planned absence.

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To date more than 51,000 coins and approximately 14,000 artifacts have been recovered from SS *Republic*, including \$20.00 Double Eagles, \$10.00 Eagles, Half Dollars and Quarter Dollars. Coins from the SS *Republic* have been divided into two categories. The first category, our numismatic collection, consists of coins that are indistinguishable from coins that have never been underwater. These have been priced to correlate with their numismatic value. The second category includes ungraded shipwreck coins (shipwreck effect) that have been conserved and encased in a certified tamper-resistant holder by Numismatic Conservation Services, or NCS, and Numismatic Guaranty Corporation, or NGC.

The SS *Republic* shipwreck effect Liberty Seated Half Dollars are unique. Unlike the graded numismatic coins from the SS *Republic* shipwreck site, an expert can tell that these coins have been lying on the ocean floor for many years. These shipwreck effect coins were the first available for sale, and the marketing program for them was launched, on May 15, 2004, at a 24-hour marathon of Shop at Home Television Coin Vault program. SS *Republic* ungraded silver half dollar coins were offered in a package that included a souvenir wooden box with engraved plaque, a 16-page color booklet and DVD of a National Geographic/MSNBC television special that aired April 25, 2004. These were offered in four one-hour segments dedicated exclusively to SS *Republic* coins.

There are no Revenue Participation Certificates or revenue sharing arrangements related to the SS *Republic* recovery.

HMS Sussex Project

The Sussex project is an expedition to locate, recover and market the artifacts and cargo of a large colonial-period British warship, HMS *Sussex*, which was lost in a severe storm in 1694. Based on document research conducted by contract researchers and our in-house research team, in libraries and historical archives in Great Britain, France and other countries we believe that there is a high probability that the ship was carrying a cargo of coins with a bullion value of approximately \$100 million and a much higher numismatic value. Data was accumulated from a review of ship logs, court martial records, state papers, treasury books and various other letters and reports. Although we believe this to be a reasonable estimate based upon our analysis of the data, it is possible that the data we have used to analyze the potential value is inaccurate or misinterpreted, and the estimate is subject to risks as discussed in the Risk Factors section below. We conducted offshore search operations on this project in 1998, 1999, 2000 and 2001. Based on the results of these search operations, we believe that there is a high probability we have located the remains of HMS *Sussex*.

On September 27, 2002, we entered into an agreement with the Government of the United Kingdom of Great Britain and Northern Ireland, which we refer to as the British Government, which allows us to conduct an archaeologically sensitive exploration of the shipwreck believed to be HMS *Sussex* and to recover artifacts from the shipwreck site. The agreement provided for us to submit a Project Plan to the British Government concerning the equipment, personnel and methodologies we intend to use in the exploration of the shipwreck, and the conservation and documentation of any artifacts and cargo that may be recovered. This Plan was submitted and was declared fit for purpose during 2004 with the exception of the staffing plan, which could not be completed until the actual start date was agreed upon and the availability of personnel could be determined.

The following sharing arrangements have been agreed upon with respect to the aggregate amount of the appraised values and/or selling prices of the artifacts, net of agreed selling expenses:

<u>Range</u>	<u>British Government</u>	<u>Odyssey</u>
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\$0 - \$45 million	20%	80%
\$45 million to \$500 million	50%	50%
Above \$500 million	60%	40%

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In addition to the percentages specified above, we will also pay the British Government 10% of any net income we derive from intellectual property rights associated with the project.

We also received the exclusive worldwide right to use the name *HMS Sussex* in connection with sales and marketing of merchandise (exclusive of artifacts) related to the shipwreck, and the British Government will receive 3% of the gross sales of such merchandise.

Our agreement with the British Government is for a period of 20 years, and can only be terminated if:

the shipwreck is not *HMS Sussex*;

we are in serious breach of our obligations under our agreement with the British Government.

Pursuant to our agreement with the British Government, our staffing plan was recently approved, and we were cleared to begin the archaeological exploration of the *HMS Sussex* site. Operations are scheduled to begin during March 2005. Once the preliminary stages of the excavation, including pre-disturbance survey, photomosaic and environmental sampling are completed, we will begin excavation of the site. Depending upon the outcome of the initial recovery operations, specifically whether or not the wreck is that of the *Sussex* and whether or not we locate any valuable bullion or specie, the balance of the recovery operation may take anywhere from 3 to 18 months.

The shipwreck that we believe is the *HMS Sussex* is located in the search area for a project that we have referred to as our *Cambridge Project*. We sold through private placements of Revenue Participation Certificates, or RPCs, the right to share in our future revenues derived from the *Cambridge Project*. As of April 30, 1999, when the offering was closed, we had sold \$825,000 of the RPCs. As a group, the holders are entitled to 100% of the first \$825,000 of gross revenue, 24.75% of gross revenue from \$4 million to \$35 million, and 12.375% of gross revenue above \$35 million generated by the *Cambridge Project*. Additionally, on May 26, 1998, we signed an agreement with a subcontractor that entitled it to receive 5% of the post-finance cost proceeds from any shipwrecks in a certain search area of the Mediterranean Sea. The shipwreck that we believe is the *HMS Sussex* is located within the specified search area, and we will be responsible to share future revenues, if any, from this shipwreck with the subcontractor. The subcontractor's rights were foreclosed upon during 2002 and the purchaser, Blue Sky Investments, LLC is partially owned through non-managing member interests by John Morris (32%) and Greg Stemm (28%), officers and Directors of the Company. At the time of the foreclosure, the Company was offered the opportunity to acquire the foreclosure rights but declined.

Technology

Odyssey is a pioneer in the use of advanced deep-ocean technology for shipwreck exploration. We are not, for the most part, inventors of the technologies required for deep ocean search and recovery. We use technologies that others, primarily the military, oil industry, and telecommunications industry, have developed at great expense.

We have learned how to apply these technologies specifically to locate shipwrecks and to conduct precise archaeological recoveries at depths of 100 to 2,000 meters and beyond. Although we tend to use *off the shelf* technology because it is cost effective, we do have several proprietary software and equipment applications that maximize the effectiveness of our search and recovery systems. Software to precisely document the complete archaeological excavation and advanced sediment removal and filtration systems are two examples of our technological innovations.

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Equipment

Most of our projects are conducted in two phases. The search phase is usually conducted from a smaller vessel outfitted with survey equipment and an inspection ROV. The recovery phase requires a vessel equipped with a work-class ROV, sophisticated positioning systems, and certain Odyssey technology and proprietary software, which allows us to record the recovery in an archaeologically sound manner.

In 2003, we purchased the 113-foot search and survey vessel RV *Odyssey* and equipped it with sophisticated search and identification equipment. That ship and search team successfully concluded the SS *Republic* search operation with location of the shipwreck in August 2003. RV *Odyssey* will be our primary search vessel for coastal projects and can recover small artifacts that may aid in identifying our targets on a cost-effective basis. This vessel operates with a minimum ship's crew of five and a technical crew of two to four.

During September 2003, we purchased a 251-foot dynamically-positioned ship that we named *Odyssey Explorer* and a 2,500 meter 200 HP work-class ROV that we nicknamed *ZEUS*. Coupled with a sophisticated suite of cameras, lighting and positioning equipment, as well as advanced computer monitoring and proprietary data management systems, *ZEUS* provides us with the ability to perform extensive archaeological excavation work to depths of 2,500 meters.

The *Odyssey Explorer* and *Zeus* were mobilized in Baltimore and deployed to the SS *Republic* site in October 2003, where they conducted the recovery of the SS *Republic* prior to being relocated to the western Mediterranean in March 2005.

We have also purchased new manipulators and integrated them with *Zeus* to provide the capability for recording the X, Y and Z position of artifacts as they are recovered. This resulted in a more efficient and accurate site excavation. We have also integrated a new high-definition, or HD, camera system that will add HD filmmaking to our intellectual property and media capabilities.

We have recently integrated substantial additions to our computer control, navigation and guidance systems that significantly improve our capability for conducting pre-disturbance surveys and creating photomosaics. We have also added a new flotation pack that significantly increases the payload on *ZEUS*, enabling us to operate multiple tooling packages simultaneously.

Sales and Marketing

The recovery of coins and artifacts from the SS *Republic* required us to create a marketing plan specifically to sell these coins and artifacts. Initially we wholesaled silver coins to coin dealers who sold them through telemarketing and television outlets. During May of 2004, we began to sell gold coins through the same dealer network. These dealers provided an immediate outlet for our coins and enabled us to generate revenue during 2004. While the coins sold well, we realized that the buyers were not Odyssey customers and we were missing out on the opportunity to contact the buyers with a view to selling them additional Odyssey products such as artifacts.

During the ten months ended December 31, 2004, our primary customers for the sale of gold and silver coins were 13 independent coin dealers. Of these customers, four (4) were responsible for sales volumes constituting 62% of our total sales. There are no contractual arrangements with

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any of our customers for future sales and we cannot forecast the demand, if any, these customers will have for our coins, artifacts or merchandise. No commissions are paid to dealers; however, our marketing representative is paid a commission on sales to coin dealers.

During December 2004 we conducted a test with a small group of telemarketers from our office. During the month we sold approximately \$50,000 worth of coins and artifacts. Based upon the results of this test marketing, we decided to open and operate our own telemarketing group.

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In addition to telemarketing, we are working on several other sales initiatives including the development and operation of shipwreck attractions; joint marketing in connection with jewelers and sales through strategically located kiosks.

It is our intention to develop marketing strategies that can be employed to sell a wide variety of material that we expect to recover from our various shipwrecks. We intend to continue to sell our graded gold coins to coin dealers.

Shipwreck Attractions

The development and operation of shipwreck attractions has always been a fundamental building block in the Odyssey business plan. A team of experienced professionals has been assigned to create and locate attractions to share the drama and discovery of shipwrecks and celebrate the return of trade goods and artifacts to mankind.

The Odyssey attractions will share the dramatic stories of the people, the turmoil and the circumstances that took ships to the bottom of the sea. Interpretation of the findings will unfold through the artifacts and images gathered from shipwreck sites. A variety of historic and beautiful artifacts along with compelling high definition video images from the seabed will be featured in dozens of interactive exhibits and on LCD screens throughout the state of the art attractions. The Odyssey collection of artifacts will feature valuable, sometimes priceless artifacts. The gold and silver specie recovered from SS Republic encompasses one of the most remarkable coin collections from this period.

The Odyssey attractions will attract, entertain and educate a multi-generational market. The attractions have been designed to appeal to the entire family from pre-schoolers to grand parents. Education programs will further share the discovery, history and revelations of shipwrecks with students of all ages.

Revenue will be derived through admissions and retail sales, including coins, artifacts, replicas, photography and specially designed merchandise.

Odyssey plans to open two attractions in the 2005 calendar year.

Archaeology and Science

Many of the shipwrecks that we intend to pursue may have important historical and cultural characteristics. Every such project undertaken by us will be subject to stringent archaeological standards, thus adding to the body of knowledge of the people, the history and the culture of the vessel's time. We believe adherence to these principles will increase the economic value of the artifacts and intellectual property rights of each project as well as enhance the level of cooperation we receive from governmental, archaeological and other interests.

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In addition, many deep ocean recovery expeditions will lend themselves to interdisciplinary scientific studies including oceanography, marine biology, environmental research, bioengineering and other fields.

Legal and Political Issues

Odyssey works with a number of leading international maritime lawyers and policy experts to constantly monitor international legal initiatives that might affect our projects. As a matter of policy, we begin with the assumption that some entity, whether a government, private concern or insurance company, may have

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some rights to shipwrecks that are slated for search and recovery operations. Based on this assumption, rigorous legal tests are applied in order to ascertain which entities might be able to create roadblocks to a successful project. In some cases, such as that of HMS *Sussex*, it was determined that the most prudent mechanism for moving forward was to negotiate a contract with the owner of a vessel in order to manage litigation risk.

In other cases, such as the SS *Republic* project, we entered into an agreement whereby we purchased the insurance company's interest in the shipwreck and cargo, opening the way for an immediate grant of title to Odyssey by the federal court that had jurisdiction.

To the extent that we engage in shipwreck search and recovery activities in the territorial, contiguous or exclusive economic zones of countries, Odyssey intends to comply with verifiable applicable regulations and treaties. Prior to beginning operations for any project, the legal and political aspects are carefully researched to ascertain what effect these issues may have on the potential success of the operation.

These factors are taken into account in determining whether to proceed with a project as planned. Other factors, such as the new UNESCO Convention for the Protection of Underwater Cultural Heritage are also taken into consideration. New political initiatives such as this Convention could restrict access to historical shipwrecks throughout the world to the extent that they might require compliance with cultural resource management guidelines and regulations. Some of these will require adherence to strict archaeological practices, and we intend to follow reasonable guidelines in all projects to which they are applicable. Greg Stemm, Odyssey's co-founder, was a member of the United States delegation that negotiated the UNESCO Convention, and as such provides us with a thorough understanding of the underlying principles and ramifications of the Convention, and advance notice of other cultural resource management issues that might affect our projects.

The UNESCO Convention is not expected to affect operations in international waters, and the United States, the United Kingdom and other major maritime governments have already stated explicitly that they do not intend to sign the Convention. Nevertheless, some countries in whose waters we may work may sign the Convention. While the UNESCO Convention states that artifacts may not be sold, it also states that this prohibition may not prevent the provision of archaeological services, and we intend to provide such services in contracts with governments. We believe that the primary value of the cargoes we seek are trade goods (such as coins, bullion and gems), which are not artifacts of historical, archaeological or cultural significance and so should not be subject to the rule prohibiting sale.

We believe there will be increased interest in the protection of underwater cultural heritage throughout the oceans of the world. We are uniquely qualified to provide governments and international agencies with resources to help manage these resources while providing the public with educational, scientific, historical and entertainment initiatives that originate from our shipwreck exploration activities.

Competition

There are currently a number of entities engaged in various aspects of the shipwreck business that do not compete directly with us. Management is only aware of one company, Subsea Resources Ltd. (A UK Company), that has the capital and managerial resources to compete directly with us in deep water projects. It is possible that some currently unknown entity or group may locate and recover a shipwreck that we intend to locate and recover before we can begin operations on that specific project. Due to the number of projects we are currently planning, we do not believe that competition from one or more entities will affect our operating plan.

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Cost of Environmental Compliance

With the exception of vessel operations and conservation activities, our general business operations do not expose us to environmental risks or hazards. We carry insurance that provides a layer of protection in the event of an environmental exposure resulting from the operation of our vessels. The cost of such coverage is minimal on an annual basis. We believe the risk associated with our conservation activities is minimal.

Employees

We have 45 full-time employees working from our corporate offices in Tampa Florida. Additionally, we employ approximately 20 crewmen who operate the vessels RV *Odyssey* and *Odyssey Explorer*. We also hire technical personnel as needed for marine survey and recovery on the RV *Odyssey* and *Odyssey Explorer*. Depending upon the particular operations they are conducting, the RV *Odyssey* will utilize two to four technicians, and the *Odyssey Explorer* will use from 14 to 20. In addition, we hire subcontractors and consultants from time to time to perform specific services.

Risk Factors

You should carefully consider the following factors, in addition to the other information in this Transition Report on Form 10-KSB, in evaluating our company and our business. Our business, operations and financial condition are subject to various risks. Some of these risks are described below, and should be carefully considered in evaluating Odyssey or any investment decision relating to our securities. This section does not describe all risks applicable to Odyssey, its industry or its business. It is intended only as a summary of the principal risks.

Our business involves a high degree of risk.

An investment in Odyssey is extremely speculative and of exceptionally high risk. Although we have access to a substantial amount of research and data which has been compiled regarding various projects, the quality and reliability of such research and data is unknown. Even if we are able to plan and obtain permits for our various projects, there is a possibility that the shipwrecks may have already been salvaged, or may not have had anything valuable on board at the time of the sinking. Even if objects of value are located and recovered, there is the possibility that the cost of recovery exceeds the value of the objects recovered or that others, including both private parties and governmental entities, will assert conflicting claims and challenge our rights to the recovered objects. Finally, even if we are successful in locating and retrieving objects from a shipwreck and establishing good title to them, there can be no assurance as to the value that such objects will bring at their sale, as the market for such objects is very uncertain.

The research and data we use may not be reliable.

The success of a shipwreck project will be dependent to a substantial degree upon the research and data we have obtained. By its very nature, research and data regarding shipwrecks is imprecise, incomplete and unreliable. It is often composed of or affected by numerous assumptions, rumors, legends, historical and scientific inaccuracies and inaccurate interpretations which have become a part of such research and data over

time.

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Recovery efforts may be affected by natural hazards.

Underwater recovery operations are inherently difficult and dangerous and may be delayed or suspended by weather, sea conditions or other natural hazards. Further, such operations may be undertaken more safely during certain months of the year than others. We cannot guarantee that we, or the entities we are affiliated with, will be able to conduct search and recovery operations only during favorable periods. In addition, even though sea conditions in a particular search location may be somewhat predictable, the possibility exists that unexpected conditions may occur and adversely affect our operations. It is also possible that natural hazards may prevent or significantly delay search and recovery operations.

We may be unable to establish our rights to any objects we recover.

Persons and entities other than Odyssey and entities we are affiliated with (both private and governmental) may claim title to the shipwrecks. Even if we are successful in locating and recovering shipwrecks, we cannot assure you that we will be able to establish our right to property recovered against governmental entities, prior owners, or other attempted salvors claiming an interest therein. In such an event, we could spend a great deal of money and receive no revenue for our work.

The market for any objects we recover is uncertain.

Even if valuable items can be located and recovered, it is difficult to predict the price that might be realized for such items. The value of recovered items will fluctuate with the precious metals market, which has been highly volatile in recent years. In addition, the entrance on the market of a large supply of similar items from shipwrecks located and recovered by others could depress the market for these items.

We could experience delays in the disposition or sale of recovered objects.

The methods and channels that may be used in the disposition or sale of recovered items are uncertain at present and may include several alternatives. Ready access to buyers for any artifacts or other valuable items recovered cannot be assured. Delays in the disposition of such items could adversely affect our cash flow.

Objects we recover could be stolen from us.

If we locate a shipwreck and assert a valid claim to items of value, there is a risk of theft of such items at sea, both before and after their recovery, by pirates or poachers and while in transit to a safe destination. Such thefts may not be adequately covered by insurance.

We face competition from others.

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There are a number of competing entities engaged in various aspects of the shipwreck business, and in the future other competitors may emerge. One or more of these competing entities may locate and recover a shipwreck that we intend to locate and recover. In addition, these competing entities may be better capitalized and may have greater resources to devote to their pursuit of the shipwreck.

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We may be unable to get permission to conduct salvage operations.

It is possible that we will not be successful in obtaining title to, or permission to excavate certain wrecks. In addition, permits that are sought for the projects may never be issued, and if issued, may not be legal or honored by the entities that issued them.

Our articles of incorporation authorize generic preferred stock.

Our articles of incorporation authorize the issuance of up to 10,000,000 shares of preferred stock. Our board of directors has the right to establish the terms, preference, rights and restrictions of the preferred stock. Such preferred stock could be issued with terms, rights, preferences and restrictions that could discourage other persons from attempting to acquire control and thereby insulate incumbent management. In certain circumstances, the existence of corporate devices that would inhibit or discourage takeover attempts could have a negative effect on the market value of our common stock.

ITEM 2. DESCRIPTION OF PROPERTY

We maintain our offices at 5215 W. Laurel Street, Tampa, Florida 33607. We purchased the 23,500 square foot two story office building for \$3,058,770 to serve as our corporate and operations headquarters. We currently lease approximately 25% of the space to a tenant. Prior to occupying our new headquarters, we leased approximately 4,500 square feet of office space in two adjacent buildings at 3604-3606 W. Swann Avenue, Tampa, Florida. Our monthly rent was approximately \$6,000 per month, and rent expense for the ten months ended December 31, 2004 was approximately \$50,500. As of December 2004 we no longer rent either of our prior facilities.

We also own certain vessels and equipment that are material to our operations. See Item 1. Description of Business Equipment.

ITEM 3. 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. On February 18, 2005, John Morris, Greg Stemm, Daniel Bagley, and the Company filed their Notice of Motion and Motion to Dismiss Defendants John Morris, Greg Stemm, Daniel Bagley and Odyssey Marine Exploration, Inc. (the Motion). In the Motion, the defendants allege that the complaint should be dismissed because, among other things, the South Carolina court does not have jurisdiction over them, the action was filed in an improper venue, plaintiffs lack the capacity to maintain the action, and the action should be barred based on the Doctrine of Forum Non Conveniens. The South Carolina court has not yet heard nor ruled on the Motion.

Management believes that the law suit is without merit and intends to vigorously defend the action.

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None.

PART II**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****PRINCIPAL MARKET OR MARKETS**

Our Common Stock was quoted on the OTC Bulletin Board under the symbol **OMEX** until November 18, 2003. On November 19, 2003, our stock was listed on the American Stock Exchange and is traded under the symbol **OMR**.

The following table sets forth the high and low sale prices for our securities during each quarter for the periods set forth below.

	Price	
	High	Low
Quarter Ended		
May 31, 2003	\$ 1.45	\$ 0.45
August 31, 2003	\$ 5.50	\$ 1.09
November 30, 2003	\$ 5.60	\$ 3.12
February 29, 2004	\$ 6.50	\$ 4.20
May 31, 2004	\$ 6.80	\$ 3.00
August 31, 2004	\$ 3.66	\$ 1.76
November 30, 2004	\$ 3.10	\$ 2.00
Month Ended		
December 31, 2004	\$ 2.75	\$ 2.02

APPROXIMATE NUMBER OF HOLDERS OF COMMON STOCK

The number of record holders of our \$.0001 par value Common Stock at January 21, 2005 was 318. This does not include shareholders that hold their stock in accounts in street name with broker/dealers.

DIVIDENDS

Holders of the Common Stock are entitled to receive such dividends as may be declared by our Board of Directors. No dividends have been declared with respect to our Common or Preferred Stock and none are anticipated in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

During the one month period ending December 31, 2004, there were no sales of unregistered securities.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. The discussion should be read in conjunction with our consolidated financial statements and notes thereto. A description of our business is discussed in Item 1 of this report which contains an overview of our business as well as the status of our ongoing project operations.

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Results of Operations

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 7.

Due to a change in our fiscal year to December 31, our 2004 transition period consists of a ten-month period ended December 31, 2004, and is compared to a fiscal year ended February 29, 2004. In the future our reporting period will be a fiscal year ending December 31.

Ten months ended December 31, 2004 compared to the year ended February 29, 2004

Revenues

Revenues for the ten month period ended December 31, 2004 were \$17.6 million as compared to \$.1 million for the year ended February 29, 2004. Revenues for the period ended December 31, 2004 consisted primarily of artifact sales representing approximately 9,000 gold and silver coins. Revenues for the year ended February 29, 2004 consisted of search operations performed for a third party and merchandise sales. Sales of artifacts from the SS *Republic* began in May 2004. During the first nine months of the ten months ended December 31, 2004, sales of gold and silver coins were primarily to coin dealers. Odyssey began testing a direct sales center in December 2004. Based on the results of those tests, the direct sales center has now transitioned to an operational unit. Odyssey representatives are currently offering shipwreck effect coins and bottles from the SS *Republic*, as well as other *Republic*, Odyssey and shipwreck related merchandise. Graded gold coins will continue to be sold to coin dealers.

Cost of Sales

Cost of Sales for the ten months ended December 31, 2004 of \$1.9 million consisted of shipwreck recovery costs, grading, conservation and packaging, and shipping costs associated with artifact sales. Cost of sales as a percentage of revenue for the ten months ended December 31, 2004 was 11%. The major factors that contributed 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 the ten months ended December 31, 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 December 2004, the capitalized cost of recovery per artifact, excluding grading, conservation, packaging and shipping costs, was approximately \$136 per unit. Approximately 65,000 artifacts have been recovered to-date from the SS *Republic* representing approximately 4,000 gold and 47,000 silver coins, and 14,000 other artifacts.

Operating Expenses

(Dollars in thousands)

	Ten months	Fiscal Year	Increase (Decrease)	
	Ended	Ended	Dollar	Percent

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	December 31 2004	February 29 2004	Change	Change
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operations & research	\$ 1,922	\$ 2,450	\$ (528)	(22)%
Marketing, general & administrative	4,731	2,464	2,267	92%
Depreciation	362	265	97	37%
Loss on disposal of equipment	20	32	(12)	(38)%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 7,035	\$ 5,211	\$ 1,824	35%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Operations and research expenses for the ten months ended December 31, 2004 was \$1.9 million as compared to \$2.5 million for the year ended February 29, 2004. 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* and continued through 2004 as recovery operations continued. Total operations and research costs before capitalization were \$6.0 million for the ten months ended December 31, 2004 compared to \$4.4 million for the year ended February 29, 2004. The increase of \$1.6 million before capitalization was primarily due to recovery operations for the vessel Odyssey Explorer during the period; additional archaeological, conservation, and research expenses; and search operations by the vessel RV Odyssey.

Marketing, general and administrative expenses for the ten months ended December 31, 2004 were \$4.7 million as compared to \$2.5 million for the year ended February 29, 2004. The increase of \$2.2 million resulted primarily 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 \$2.2 million increase, \$1.5 million was the result of increased general and administrative expenses consisting primarily of personnel-related, insurance and corporate communication expenses, and \$.7 million was due to the expansion of our marketing and sales function including attraction development costs, personnel-related expenses and selling commissions for artifacts.

Depreciation increases and loss on disposal of equipment were the result of acquisitions and disposals of additional property and equipment.