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ODYSSEY MARINE EXPLORATION INC  
Form 10QSB  
January 09, 2002

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

FORM 10-QSB

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

For the quarterly period ended November 30, 2001

Commission File Number 0-26136

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.)

3604 Swann Avenue, Tampa, Florida 33609

-----  
(Address of principal executive offices)

(813) 876-1776

-----  
(Registrants telephone number including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[ X ] Yes [ ] No

As of December 31, 2001, the Registrant had 26,465,536 shares of common stock, \$.0001 par value, outstanding.

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

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ASSETS	
CURRENT ASSETS	
Cash	\$ 1,040,528
Marketable securities	1,373
Advances and prepaid expense	18,514
	-----
Total current assets	1,060,415
PROPERTY AND EQUIPMENT	
Equipment and office fixtures	380,172
Accumulated depreciation	(137,178)
	-----
	242,994
OTHER ASSETS	
Loans receivable from related parties	249,264
Inventory	20,000
Deposits	13,206
	-----
	282,470
	-----
TOTAL ASSETS	\$ 1,585,879
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 42,699
Accrued expenses	6,735
	-----
Total current liabilities	49,434
NOTES PAYABLE TO RELATED PARTY	59,897
DEFERRED INCOME FROM REVENUE PARTICIPATION CERTIFICATES	887,500
STOCKHOLDERS' EQUITY	
Preferred stock - \$.0001 par value; 9,300,000 shares authorized, none outstanding	-
Preferred stock Series A Convertible - \$.0001 par value; 700,000 shares authorized; 190,000 shares issued and none outstanding	-
Common stock - \$.0001 par value; 100,000,000 shares authorized; 26,365,536 issued and outstanding	2,636
Additional paid-in capital	7,446,915
Accumulated unrealized loss in investment	(27,840)
Accumulated deficit	(6,832,663)
	-----
Total stockholders' equity	589,048
	-----
	\$ 1,585,879
	=====

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

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	2001	2000
	-----	-----
REVENUE	\$ 9,975	-
OPERATING EXPENSES		
Project development	64,755	46,276
Project operations	32,999	175,244
Marketing and promotion	17,689	16,163
	-----	-----
Total operating expenses	115,443	237,683
GENERAL AND ADMINISTRATIVE EXPENSES	134,645	101,359
	-----	-----
(LOSS) FROM OPERATIONS	(240,113)	(339,042)
OTHER INCOME OR (EXPENSE)		
Gain(Loss) on sale of marketable securities	-	(13,480)
Interest income	12,066	3,377
Interest expense	(1,400)	(24,110)
Other	300	-
	-----	-----
Total other income or (expense)	10,966	(34,213)
	-----	-----
NET LOSS	\$ (229,147)	\$ (373,255)
	=====	=====
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized loss on available for sale securities	(914)	(15,619)
	-----	-----
COMPREHENSIVE LOSS	\$ (230,061)	\$ (388,874)
	=====	=====
(BASIC AND DILUTED LOSS PER SHARE)	\$ (0.01)	\$ (0.03)
Weighted average number of common shares and potential common shares, basic and diluted outstanding.	19,029,920	12,177,841

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

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	2001	2000
	-----	-----
REVENUE	\$ 9,975	-
OPERATING EXPENSES		
Project development	\$ 160,139	\$ 133,729
Project operations	583,852	619,683
Marketing and promotion	73,999	42,705
	-----	-----
Total operating expenses	817,990	796,117
GENERAL AND ADMINISTRATIVE EXPENSES	396,906	378,510
	-----	-----
(LOSS) FROM OPERATIONS	(1,204,921)	(1,174,627)
OTHER INCOME OR (EXPENSE)		
Gain on sale of marketable securities	-	193,406
Interest income	56,779	9,858
Interest expense	(4,375)	(79,683)
Other	306	(7,413)
	-----	-----
Total other income or (expense)	52,710	116,168
	-----	-----
NET LOSS	\$ (1,152,211)	\$ (1,058,459)
	=====	=====
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized loss on available for sale securities	(9,380)	(17,752)
	-----	-----
COMPREHENSIVE LOSS	\$ (1,161,591)	\$ (1,076,211)
	=====	=====
(BASIC AND DILUTED LOSS PER SHARE)	\$ (0.06)	\$ (0.09)
Weighted average number of common shares and potential common shares, basic and diluted, outstanding.	19,029,920	12,177,841

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

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	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,152,211)	\$ (1,058,459)
Adjustments to reconcile net loss to net cash used by operating activity:		
Depreciation	53,456	24,404
Common stock issued for services	-	132,000
Finance charge added to note	-	7,500
Loss (gain) on sale of marketable securities	-	(193,406)
Decrease (increase) in:		
Advances	5,878	8,346
Interest receivable	(14,165)	(15,998)
Prepaid expenses	(15,792)	-
Increase (decrease) in:		
Accounts payable	(18,200)	(32,436)
Accrued expenses	(105,690)	165,257
	-----	-----
NET CASH (USED) IN OPERATING ACTIVITIES	(1,246,724)	(962,792)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(92,335)	(18,753)
Increase in loans receivable	(53,600)	-
	-----	-----
NET CASH (USED) IN INVESTING ACTIVITIES	(145,935)	(18,753)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Related party loans	-	5,000
Loans from others	-	75,000
Issuance of common stock	-	517,500
Issuance of revenue participation certificates	-	62,500
Sale of marketable securities	-	345,105
Repayment of note	-	(64,153)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	940,952
	-----	-----
NET INCREASE (DECREASE) IN CASH	(1,392,659)	(40,593)
CASH AT BEGINNING OF PERIOD	2,433,187	47,175
	-----	-----
CASH AT END OF PERIOD	\$ 1,040,528	\$ 6,582
	=====	=====

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

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

SUPPLEMENTARY INFORMATION:

Interest paid	\$	-	\$	31,919
Income taxes paid	\$	-	-	-

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Summary of significant non cash transactions:

During the quarter ending November 30, 2001, the holder of 850,000 shares of Series B Preferred Stock converted the shares into 8,500,000 shares of Common Stock in a non-cash transaction.

During the quarter ended May 31, 2001, a note to a related party was renewed. The original principal amount of \$48,821 and accrued interest of \$7,323 were combined in a new note in the principal amount of \$56,144 bearing interest at 10% per annum. The due date was extended to March 31, 2003.

During the quarter ended November 30, 2000, five unrelated accredited investors who purchased shares through the private placement which was completed in July 2000 were issued 757,911 additional shares pursuant to the terms of the private placement. Additionally, 120,000 shares of Series A Preferred Stock were surrendered and converted into 450,000 shares of Common Stock, and two subcontractors who provided services valued at \$47,000 on the Republic project were issued 94,000 shares of Common Stock for services.

During the quarter ended August 31, 2000, two subcontractors who provided services valued at \$80,000 on the Republic project, were compensated by the issuance of 160,000 shares of Common Stock.

During the quarter ended May 31, 2000, a director who was owed \$105,000 of accrued expenses, \$132,131 of notes, and \$8,256 of accrued interest assigned the entire amount owed to an unrelated third party who was issued 490,774 shares of Common Stock for converting the entire amount due \$245,387 into stock. A related party was issued 151,548 shares for the conversion of \$68,894 of principal and \$6,880 of accrued interest into stock. A consultant was issued 10,000 shares of Common Stock for \$5,000 of services.

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

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

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Odyssey Marine Exploration, Inc. and subsidiary 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

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footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles. 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 28, 2001.

In the opinion of management, these financial statements reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation of the financial position as of November 30, 2001, results of operations, and cash flows for the interim periods presented. Operating results for the three months, and nine months ended November 30, 2001, are not necessarily indicative of the results that may be expected for the year ended February 28, 2002.

### NOTE B - CONVERSION OF SERIES B PREFERRED STOCK TO COMMON STOCK

On October 12, 2001, MacDougald Family Limited Partnership("MFLP") delivered a Notice of Conversion to the Issuer pursuant to which MFLP converted 850,000 shares of Preferred Stock held by MFLP into 8,500,000 shares of Common Stock in accordance with the terms of the Stock Purchase Agreement and the Certificate of Designation. No additional funds were expended by MFLP in connection with its acquisition of the Common Stock. The consideration for the Common Stock was the Preferred Stock tendered by MFLP to the Issuer.

As a condition and an inducement to MFLP to convert the Preferred Stock, the Issuer and MFLP executed an Amended and Restated Registration Rights Agreement, dated October 12, 2001 ("Amended and Restated Registration Rights Agreement"), pursuant to which the Issuer granted MFLP up to five demand registration rights. Concurrently with the execution of the Amended and Restated Registration Rights Agreement, the Issuer and MFLP entered into the First Amendment to Series B Stock Purchase Agreement, dated October 12, 2001 ("First Amendment to Stock Purchase Agreement"), which eliminated certain of MFLP's rights under the Stock Purchase Agreement.

The 850,000 shares of Series B Preferred Stock thus converted to Common Stock have been retired and cancelled and restored to the status of authorized but unissued shares of preferred stock of the Corporation, without designation as to series, as provided for in the Certificate of Designation of Series B Convertible Preferred Stock.

### ITEM 2. MANAGEMENT'S PLAN OF OPERATION.

In the long term, the Company expects to derive substantially all of its revenue through the sale and/or display of shipwreck cargoes and artifacts, including replicas. Therefore, until the Company is successful in acquiring and marketing artifacts and/or cargoes, it will be dependent upon investment capital to meet its cash flow requirements. To date, the Company has conducted private placements of debt, equity and project specific revenue participation to meet its financial obligations.

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For the next twelve months, the Company anticipates spending approximately \$80,000 per month to pay administrative and project development overhead. Management believes the Company currently has sufficient cash to fund its overhead for the next twelve months.

During the next twelve months, the Company is planning to conduct recovery and conservation operations on a shipwreck believed to be "HMS Sussex", conduct two search operations and begin the development of the sales and marketing department. All of these operations will require additional financing which



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the Company intends to raise through the sale of equity, debt or project specific revenue participation.

### Recovery and Conservation for "HMS Sussex":

"HMS Sussex" is an English warship that sank during a storm in the western Mediterranean Sea in 1694. There is circumstantial evidence that the ship was carrying a substantial cargo of money at the time of its sinking.

During operations conducted in the Spring of 2001, the expedition archaeologist, Neil Cunningham Dobson, directed the recovery of certain artifacts from a site that he believed demonstrated some of the characteristics of the Sussex. In his draft archaeological report he concludes that after studying the survey data, the historical and documentary sources, the underwater investigations, the location, the size and shape of the site, and the cannon distribution and sizes, he believes that the site is likely to be the remains of the Sussex. However, the Company stresses that all of the evidence is circumstantial.

Based upon the survey data, historical research and Mr. Dobson's report, the Company believes that it is likely that the wreck of the British warship, "HMS Sussex", has been discovered. Accordingly, it has provided a copy of Mr. Dobson's report to the United Kingdom's Ministry of Defence ("MOD") and asked them to enter into a license agreement for the purpose of determining the methods of recovery and the disposition of any artifacts recovered. While there can be no assurance that the MOD will issue such a license, the MOD has previously indicated that a license would be issued to Odyssey. The Company believes that any license will contain provisions for Odyssey to receive a substantial distribution of any recovered items. The Company also anticipates that any license will be subject to the stringent application of archaeological standards for all work conducted on the site.

The Company anticipates it will be issued a license for the recovery of the Sussex, or it may elect to perfect a claim and protect the site using any international legal mechanisms at its disposal. Subject to financing, the Company intends to begin recovery during the Spring of 2002.

If the Company successfully recovers artifacts and cargo from "HMS Sussex", the Company plans to produce revenue from the project by selling the trade goods recovered (after conservation and documentation), along with ancillary products such as replicas, video footage, promotional items, and intangible property rights. The Company anticipates that the project will have a marketing life in excess of ten years.

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### Search Operations:

On September 1, 2001, the Company entered into an agreement with Mr. Jeff Hummel, a researcher for the Company's Republic Project, to conduct search operations, on a "no cure - no pay" basis. Accordingly, the Company did not conduct any of its own search operations for the Republic during the 2001 work season. If financing is obtained, the Company plans to continue its search for the Republic during August and September 2002, when weather conditions are most favorable in the search area.

During the Summer of 2002, the Company also intends to search an area off the east coast of the United States in an attempt to locate and identify a

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nineteenth century steamship believed to have sunk while carrying a cargo of coins at the time of its sinking. If this shipwreck is located and if financing and equipment are available, recovery and conservation efforts could begin immediately.

Sales and Marketing Department

Since the Company believes it will conduct recovery operations at one or more sites during the next twelve months, it intends to build a sales and marketing division to provide the platform for revenue generation. The Company has retained consultants to assist it in developing the marketing strategy and plans to implement this strategy once funds are available.

### PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

None.

ITEM 2. Changes in Securities.

On October 12, 2001, MacDougald Family Limited Partnership ("MFLP") delivered a Notice of Conversion to the Company pursuant to which MFLP converted 850,000 shares of Series B Preferred Stock held by MFLP into 8,500,000 shares of Common Stock in accordance with the terms of the Stock Purchase Agreement and the Certificate of Designation. No additional funds were expended by MFLP in connection with its acquisition of the Common Stock. The consideration for the Common Stock was the Preferred Stock tendered by MFLP to the Company. James E. MacDougald, who was a Director of the Company at that time, controls MFLP.

As a condition and an inducement to MFLP to convert the Preferred Stock, the Company and MFLP executed an Amended and Restated Registration Rights Agreement, dated October 12, 2001 ("Amended and Restated Registration Rights Agreement"), pursuant to which the Company granted MFLP up to five demand registration rights. Concurrently with the execution of the Amended and Restated Registration Rights Agreement, the Company and MFLP entered into the First Amendment to Series B Stock Purchase Agreement, dated October 12, 2001 ("First Amendment to Stock Purchase Agreement"), which eliminated certain of MFLP's rights under the Stock Purchase Agreement.

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In connection with this transaction, the Company relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. MFLP is an accredited investor and represented that it was acquiring the shares for investment purposes and not with a view to distribution. The certificate representing the shares of common stock bears a restrictive legend and stop transfer orders were entered with the transfer agent.

ITEM 3. Defaults Upon Senior Securities.

None.

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

On November 7, 2001, the holders of 15,051,245 shares of the Company's Common Stock (the "Common Stock") signed a written consent that became

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effective on December 5, 2001, approving amendments to the Company's 1997 Stock Option Plan to increase the number of shares of Common Stock covered by the Plan from 2,000,000 to 3,500,000 shares. On November 7, 2001, there were 26,365,536 shares of Common Stock issued and outstanding, and no shares of Preferred Stock outstanding. The consenting shareholders owned an aggregate of approximately 57.1% of the outstanding shares of Common Stock.

ITEM 5. Other Information.

None.

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

None.

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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: January 9, 2002

By: /s/ David A. Morris  
David A. Morris, Treasurer  
(Principal Accounting Officer  
and Duly Authorized Officer)

