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ODYSSEY MARINE EXPLORATION INC
Form 10QSB
October 10, 2001

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, 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 September 30, 2001, the Registrant had 17,865,536 shares of common stock, \$.0001 par value, outstanding.

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

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CONSOLIDATED BALANCE SHEET AS OF AUGUST 31, 2001 - Unaudited

ASSETS

CURRENT ASSETS

Cash	\$ 1,251,110
Marketable securities	2,287
Advances and prepaid expense	19,246

Total current assets	1,272,643

PROPERTY AND EQUIPMENT

Equipment and office fixtures	371,663
Accumulated depreciation	(118,702)

	252,961

OTHER ASSETS

Loans receivable from related parties	239,435
Inventory	20,000
Deposits	21,684

	281,119

TOTAL ASSETS

\$ 1,806,723
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 33,407
Accrued expenses	8,157

Total current liabilities	41,564

NOTES PAYABLE TO RELATED PARTY

58,497

DEFERRED INCOME FROM REVENUE PARTICIPATION CERTIFICATES

887,500

STOCKHOLDERS' EQUITY

Preferred stock - \$.0001 par value; 8,450,000 shares authorized, none outstanding	-
Preferred stock Series A Convertible - \$.0001 par value; 700,000 shares authorized; 190,000 shares issued and none outstanding	-
Preferred stock Series B Convertible - \$.0001 par value; 850,000 shares authorized; 850,000 shares issued and outstanding	85
Common stock - \$.0001 par value; 100,000,000 shares authorized; 17,865,536 issued and outstanding	1,786

Additional paid-in capital	7,447,680
Accumulated unrealized loss in investment	(26,926)
Accumulated deficit	(6,603,463)

Total stockholders' equity 819,162

\$ 1,806,723
=====

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

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME - Unaudited

	Three Months Ended August 31	
	2001	2000
	-----	-----
OPERATING EXPENSES		
Project development	53,248	42,908
Project operations	139,202	382,952
Marketing and promotion	17,077	14,784
	-----	-----
Total operating expenses	209,527	440,644
GENERAL AND ADMINISTRATIVE EXPENSES	136,328	130,313
	-----	-----
(LOSS) FROM OPERATIONS	(345,855)	(570,957)
OTHER INCOME OR (EXPENSE)		
Gain(Loss) on sale of marketable securities	-	25,753
Interest income	17,540	3,243
Interest expense	(1,415)	(24,541)
Other	59	(2,952)
	-----	-----
Total other income or (expense)	16,184	1,503
	-----	-----
NET LOSS	\$ (329,671)	\$ (569,454)
	=====	=====
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized loss on available for sale securities	-	(3,184)
	-----	-----
COMPREHENSIVE LOSS	\$ (329,671)	\$ (572,638)
	=====	=====
(BASIC AND DILUTED LOSS PER SHARE)	\$ (0.02)	\$ (0.05)
Weighted average number of common shares and potential common shares, basic and diluted outstanding.	17,865,536	11,470,465

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

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	Six Months Ended August 31	
	2001	2000
	-----	-----
OPERATING EXPENSES		
Project development	\$ 95,384	\$ 87,453
Project operations	550,853	444,439
Marketing and promotion	56,310	26,542
	-----	-----
Total operating expenses	702,547	558,434
GENERAL AND ADMINISTRATIVE EXPENSES	262,262	278,017
	-----	-----
(LOSS) FROM OPERATIONS	(964,809)	(836,451)
OTHER INCOME OR (EXPENSE)		
Gain on sale of marketable securities	-	206,886
Interest income	44,713	6,480
Interest expense	(2,975)	(55,573)
Other	59	(7,413)
	-----	-----
Total other income or (expense)	41,797	150,380
NET LOSS	\$ (923,012)	\$ (686,071)
	=====	=====
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized loss on available for sale securities	8,466	(2,134)
	-----	-----
COMPREHENSIVE LOSS	\$ (931,478)	\$ (688,205)
	=====	=====
(BASIC AND DILUTED LOSS PER SHARE)	\$ (0.05)	\$ (0.06)
Weighted average number of common shares and potential common shares, basic and diluted, outstanding.	17,865,536	11,470,465

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

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	Six Months Ended August 31	
	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income(loss)	\$ (923,012)	\$ (686,071)
Adjustments to reconcile net loss to net cash used by operating activity:		
Depreciation	34,973	16,317
Common stock issued for services	-	85,000
Finance charge added to note	-	4,500
Loss (gain) on sale of marketable securities	-	(206,886)
Decrease (increase) in:		
Advances	(1,867)	2,856
Interest receivable	(9,336)	(11,421)
Prepaid expenses	(17,256)	-
Increase (decrease) in:		
Accounts payable	(27,492)	(20,960)
Accrued expenses	(105,668)	57,067
	-----	-----
NET CASH (USED) IN OPERATING ACTIVITIES	(1,049,658)	(759,598)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(83,819)	(18,753)
Increase in loans receivable	(48,600)	-
	-----	-----
NET CASH (USED) IN INVESTING ACTIVITIES	(132,419)	(18,753)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Related party loans	-	5,000
Loans from others	-	50,000
Issuance of common stock	-	367,500
Issuance of revenue participation certificates	-	12,500
Sale of marketable securities	-	338,815
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	773,815
	-----	-----
NET INCREASE (DECREASE) IN CASH	(1,182,077)	(4,536)
CASH AT BEGINNING OF PERIOD	2,433,187	47,175
	-----	-----
CASH AT END OF PERIOD	\$ 1,251,110	\$ 42,639
	=====	=====

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Interest paid	\$	-	23,223
Income taxes paid	\$	-	-

Summary of significant non cash transactions:

There were no significant non cash transactions during the quarter ending August 31, 2001.

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 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

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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 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 August 31, 2001, results of operations, and cash flows for the interim periods presented. Operating results for the three months, and six months ended August 31, 2001, are not necessarily indicative of the results that may be expected for the year ended February 28, 2002.

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. For the next twelve months, the Company anticipates spending approximately \$70,000 per month to pay administrative, promotion and project development overhead. In addition, the Company is actively working on two projects, and has a number of other projects it may commence work on, depending on the availability of additional financing.

THE CAMBRIDGE PROJECT:

The Cambridge Project is an attempt to locate, identify, recover, conserve and market the cargo and artifacts of the English warship HMS Sussex that is believed to have sunk 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 on its sinking. (See "Risk Factors" in the Company's Form 10-KSB for the period ending February 28, 2001)

The Company began search operations during 1998 and has continued these operations on and off through June 2001. To date, over 315 square miles of ocean bottom have been searched with side scan sonar, locating 415 anomalies. Fifty sites have been inspected with a remotely operated vehicle.

During operations conducted between May through June 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.

On September 10, 2001, the Company announced the completion of Mr. Dobson's draft archaeological report. The report detailed the search operations, the preliminary archaeological work on the recovered artifacts and the historical data relating to the Sussex. He concludes in the report 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

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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 and is subject to review by other experts who are currently evaluating the report.

Odyssey recently delivered this preliminary draft archaeological report to the United Kingdom's Ministry of Defence ("MOD"). The MOD will have their experts review the material and compare their findings with Mr. Dobson's. After taking into considerations any comments by the MOD and other experts, the final report and findings will be released. Until that time, the Company and the MOD have agreed not to release any further information contained in the report.

If the site in question is determined to be that of the Sussex, the Company will request a license from the MOD to conduct an archaeological excavation of the site. While there can be no assurance that the MOD will issue such a license, the Company believes that a license will be issued and that the 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.

In the event the Company is issued a license for the recovery of the Sussex or otherwise exercises it's rights to perfect a claim under maritime salvage law, the Company will most likely seek financing in the form of project revenue participation, debt, or equity and, assuming adequate financing is received, would likely begin recovery during the Spring of 2002.

If the Company is successful in obtaining the rights to the Sussex and financing for the project, 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.

REPUBLIC PROJECT

On September 1 2001, the Company entered into an agreement with Mr. Jeff Hummel, a researcher for the Republic Project, to conduct search operations during September and October 2001 on a "no cure - no pay" basis. Hummel will be responsible for all costs of the operations and will not be entitled to any fees or reimbursement from Odyssey unless he provides to Odyssey conclusive location and identification of the Republic shipwreck. All rights in the project remain with Odyssey, and, if Mr. Hummel is successful in providing the Company conclusive location and identification of the vessel, he will be entitled to a fee of \$250,000 and an additional 5% of the recovery.

If the search operations are successful, the Company may seek additional financing in the form of project specific revenue participation to conduct additional search and identification operations, or recovery operations. Recovery operations, if any, would most likely commence in the summer of 2002.

Management believes the Company currently has sufficient cash to fund its overhead for the next twelve months.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

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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.

None.

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

None.

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 10, 2001

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