ODYSSEY MARINE EXPLORATION INC
Form 10-Q
November 09, 2005
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2005

or

¨ **Transition report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934**

For the transition period from ______ to ______

Commission File Number 1-31895

ODYSSEY MARINE EXPLORATION, INC.

(Exact name of registrant as specified in its charter)

Nevada	**84-1018684**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**

5215 W. Laurel Street, Tampa, Florida 33607

(Address of principal executive offices) (Zip code)

(813) 876-1776

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities 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 x NO ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES x NO ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ¨ No x

The number of outstanding shares of the registrant s Common Stock, $.0001 par value, as of October 30, 2005 was 45,723,224.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,440,647	$ 3,050,721
Accounts receivable, net	578,320	2,104,914
Inventory	3,324,615	3,759,552
Deferred tax asset		1,651,604
Other current assets	862,549	640,150
Total current assets	9,206,131	11,206,941
PROPERTY AND EQUIPMENT		
Equipment and office fixtures	10,459,687	6,612,764
Building and land	3,862,089	3,333,481
Accumulated depreciation	(2,265,731)	(1,328,202)
Total property and equipment	12,056,045	8,618,043
OTHER ASSETS		
Inventory (non current)	7,380,308	5,945,177
Deferred tax asset	6,808,806	1,176,796
Attraction development	1,525,325	569,634
Other non current assets	395,180	404,209
Total other assets	16,109,619	8,095,816
Total assets	$ 37,371,795	$ 27,920,800
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 715,182	$ 591,138
Accrued expenses	1,421,778	2,024,882
Mortgage and loans payable	111,433	173,700
Deposits	16,403	19,098
Deferred tax liability	629,055	
Total current liabilities	2,893,851	2,808,818
LONG TERM LIABILITIES		

Mortgage payable	1,783,333	1,858,333
Deferred income from Revenue Participation Certificates	887,500	887,500
Total long term liabilities	2,670,833	2,745,833
Total liabilities	5,564,684	5,554,651
STOCKHOLDERS EQUITY		
Preferred stock - $.0001 par value; 9,300,000 shares authorized; none outstanding		
Preferred stock series A convertible - $.0001 par value; 510,000 shares authorized; none issued or outstanding		
Common stock - $.0001 par value; 100,000,000 Shares authorized; 44,264,524 and 38,530,599 issued and outstanding	4,426	3,853
Additional paid-in capital	40,085,532	26,430,934
Unrealized gain on investments, net of tax		554
Accumulated deficit	(8,282,847)	(4,069,192)
Total stockholders equity	31,807,111	22,366,149
Total liabilities and stockholders equity	$ 37,371,795	$ 27,920,800

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	
	September 30, 2005	**November 30, 2004**
REVENUE	$ 986,682	$ 6,300,371
OPERATING EXPENSES		
Cost of sales	190,633	290,742
Marketing, general & administrative	2,335,420	1,379,720
Operations & research	3,808,427	703,377
Total operating expenses	6,334,480	2,373,839
INCOME (LOSS) FROM OPERATIONS	(5,347,798)	3,926,532
OTHER INCOME (EXPENSE)		
Interest income	6,900	2,653
Interest expense	(32,365)	(32,677)
Other	13,127	8,859
Total other income (expense)	(12,338)	(21,165)
INCOME (LOSS) BEFORE INCOME TAXES	(5,360,136)	3,905,367
Income tax benefit (provision)	2,239,053	(1,493,178)
NET INCOME (LOSS)	(3,121,083)	2,412,189
EARNINGS (LOSS) PER SHARE		
Basic	$ (.07)	$ .06
Diluted	$ (.07)	$ .06
Weighted average number of common shares outstanding		
Basic	42,738,172	38,530,599
Diluted	42,738,172	39,241,760

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited

	Nine Months Ended	
	September 30, 2005	**November 30, 2004**
REVENUE	$ 8,162,016	$ 15,879,000
OPERATING EXPENSES		
Cost of sales	760,724	1,819,459
Marketing, general & administrative	6,539,865	3,615,703
Operations & research	7,961,558	1,686,460
Total operating expenses	15,262,147	7,121,622
INCOME (LOSS) FROM OPERATIONS	(7,100,131)	8,757,378
OTHER INCOME (EXPENSE)		
Interest income	22,397	4,253
Interest expense	(89,112)	(48,917)
Other	54,950	35,599
Total other income (expense)	(11,765)	(9,065)
INCOME (LOSS) BEFORE INCOME TAXES	(7,111,896)	8,748,313
Income tax benefit (provision)	2,898,241	(3,461,282)
NET INCOME (LOSS)	(4,213,655)	5,287,031
EARNINGS (LOSS) PER SHARE		
Basic	$ (.10)	$ .14
Diluted	$ (.10)	$ .13
Weighted average number of common shares outstanding		
Basic	41,246,622	38,385,644
Diluted	41,246,622	40,360,149

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited

	Nine Months Ended	
	September 30, 2005	November 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (4,213,655)	$ 5,287,031
Adjustments to reconcile net loss to net cash used by operating activity:		
Deferred income taxes	(3,351,351)	3,461,282
Depreciation	971,282	313,880
(Gain) Loss on disposal of equipment	43,528	
Tax benefit related to exercise of employee Stock options	453,110	
(Increase) decrease in:		
Accounts receivable	1,476,947	(1,640,297)
Inventory	(853,724)	(5,453,934)
Other current assets	(286,925)	(57,473)
Increase (decrease) in:		
Accounts payable	110,691	(140,778)
Customer deposits	(2,695)	19,098
Accrued expenses	(490,311)	1,064,731
NET CASH (USED) IN OPERATING ACTIVITIES	(6,143,103)	2,853,540
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,083,865)	(1,984,653)
Proceeds from sale of equipment	49,647	
Attraction development	(1,151,745)	(433,204)
Purchase of building improvements	(245,803)	(1,255,581)
NET CASH (USED) IN INVESTING ACTIVITIES	(5,431,766)	(3,673,438)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	13,547,062	1,030,313
Sale of marketable securities		1,991,554
Broker commission and fees on private offering	(445,000)	
Loan payable		1,523,700
Repayment of mortgage and loans payable	(137,267)	(1,483,332)
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,964,795	3,062,235
NET INCREASE IN CASH	1,389,926	2,242,337
CASH AT BEGINNING OF PERIOD	3,050,721	1,351,340
CASH AT END OF PERIOD	$ 4,440,647	$ 3,593,677
SUPPLEMENTARY INFORMATION:		

Interest paid	$	87,367	$	44,640
Income taxes paid	$		$	
NON CASH TRANSACTIONS:				
Depreciation reclassified as inventory	$	72,912	$	327,363
Accrued compensation paid by common stock	$	100,000	$	

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Summary of Significant Non-Cash Transactions

During the quarter ended March 31, 2005, warrants to purchase a total of 470,000 shares were issued to two persons associated with the placement agent as part of the commission paid in connection with a private placement of securities during the period. These warrants are exercisable at a price of $3.50 per share for a period of two years. The fair value of these warrants as computed by the Black-Scholes option pricing model was $.72 per warrant, or $336,504. Due to the high volatility of our stock we do not believe that the Black-Scholes model provides a realistic fair value for the warrants. These warrants do not have the characteristics of traded warrants, therefore, the warrant valuation models do not necessarily provide a reliable measure of the fair value. By agreement between the parties at the time of the offering, the Company used a fair value of $.50 per warrant, or $235,000.

The ending balance on December 31, 2004 for our New Orleans Attraction Development in the amount of $196,054 has been transferred to Property and Equipment for the period ended September 30, 2005.

We previously reported $1,888,742 in Attraction Development purchases for the six month period ended June 30, 2005. This amount has been moved to Purchase of property and equipment for the nine months ended September 30, 2005.

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

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 and the marketing and sales of shipwreck related items. 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-Q 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 December 31, 2004.

Due to a change of fiscal year, which became effective as of December 31, 2004, the third quarter of our current fiscal year ends on September 30, 2005, as compared to a third quarter which ended on November 30, 2004, during our prior fiscal year. Our presentations compare these periods. We have chosen not to recast the prior period because of implementation of a new accounting system in 2005 and limited available resources. Also, we believe this period to period comparison is reasonable since our current business plan is not subject to seasonality or other major factors affecting the comparison of information.

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 September 30, 2005, results of operations, and cash flows for the interim periods presented. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the full year.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

Reclassifications

Certain operating expense amounts for the three-month and nine-month periods ended November 30, 2004 have been reclassified to conform to the presentation of the September 30, 2005 amounts. The reclassifications have no effect on net income for the period ended November 30, 2004.

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 sales is recognized at the point of sale when legal title transfers. Legal title transfers when product is shipped or is available for shipment to customers. Bad debts are recorded as identified and no allowance for bad debts has been recorded. A return allowance is established for merchandise sales which have a right of return. Accounts receivable is stated net of any recorded allowance for returns.

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 and cash equivalents, accounts receivable, prepaid expense, 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. The Company has accounted for its inventory at the lower of cost or market.

Long-Lived Assets

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

Comprehensive Income

United States Treasury bills owned by us during the period ending September 30, 2005, were deemed available-for-sale and carried at fair value. Unrealized gains and losses on these securities were excluded from earnings and reported as a separate component of stockholders equity. At September 30, 2005 we did not own any United States Treasury bills.

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. Depreciation related to our vessel Odyssey Explorer was capitalized as inventory during the SS Republic project.

Depreciation expense is summarized as follows:

	Nine Months Ended		Three Months Ended	
	September 30 2005	November 30 2004	September 30 2005	November 30 2004
Depreciation expense	$ 1,044,194	$ 641,243	$ 417,223	$ 261,771
Less depreciation capitalized to inventory	72,912	327,363		125,128
Net depreciation expense	$ 971,282	$ 313,880	$ 417,223	$ 136,643

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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. Incurring a net loss during the three and nine month periods ending September 30, 2005 causes the potential common shares to have an anti-dilutive effect for the periods and therefore such shares are excluded from the EPS calculation as detailed below.

Potential common shares, calculated using the treasury stock method, for the three month and nine month periods affected the computation of diluted EPS as follows:

	Nine Months Ended		Three Months Ended	
	September 30 2005	November 30 2004	September 30 2005	November 30 2004
Weighted average common shares outstanding basic	41,246,622	38,385,644	42,738,172	38,530,599
Effect of potential common shares		1,974,505		711,161
Weighted average common shares basic and diluted	41,246,622	40,360,149	42,738,172	39,241,760

Potential common shares were also excluded from the calculation of diluted earnings per share because the effect of including the potential shares in the computation would have been anti-dilutive as follows:

	Nine Months Ended		Three Months Ended	
	September 30 2005	November 30 2004	September 30 2005	November 30 2004
Average market price during the period	$ 3.87	$ 3.31	$ 4.58	$ 2.46
In the money potential common shares excluded	1,354,888		1,729,465	

Stock Options with an exercise price of $2.50 per share				625,000
Stock Options with an exercise price of $4.00 per share	8,000			
Stock Options with an exercise price of $5.00 per share	595,000	555,000	595,000	555,000
Warrants with an exercise price of $2.50 per share				3,917,500
Warrants with an exercise price of $3.00 per share				11,000
Warrants with an exercise price of $5.25 per share	100,000		100,000	
Anti dilutive warrants and options excluded from EPS	2,057,888	555,000	2,424,465	5,108,500

Stock-Based Compensation

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

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

	3 Month Period Ended	
	September 30, 2005	November 30, 2004
Net income (loss):		
As reported	$ (3,121,083)	$ 2,412,189
Pro forma adjustment for compensation, net of tax	(812,518)	(217,243)
Pro forma	$ (3,933,601)	$ 2,194,946
Basic income (loss) per share:		
As reported	$ (.07)	$ .06
Pro forma	$ (.09)	$ .06
Diluted income (loss) per share:		
As reported	$ (.07)	$ .06
Pro forma	$ (.09)	$ .06

	9 Month Period Ended	
	September 30, 2005	November 30, 2004
Net income (loss):		
As reported	$ (4,213,655)	$ 5,287,031
Pro forma adjustment for compensation, net of tax	(1,261,027)	(681,857)
Pro forma	$ (5,474,682)	$ 4,605,174
Basic income (loss) per share:		
As reported	$ (.10)	$ .14
Pro forma	$ (.13)	$ .12
Diluted income (loss) per share:		
As reported	$ (.10)	$ .13
Pro forma	$ (.13)	$ .11

The weighted average estimated fair value of stock options granted during the three-month periods ended September 30, 2005 and November 30, 2004 were $2.04 and $2.70 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:

	3 Month Period Ended	
	September 30, 2005	November 30, 2004
Risk-free interest rate	3.9%	3.7%
Expected volatility of common stock	62.4%	475.8%
Dividend Yield	0%	0%
Expected life of options	4 years	5 years

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The 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.

On September 20, 2005, the Board of Directors of Odyssey Marine Exploration, Inc. (Odyssey or the Company) approved the immediate vesting of unvested and underwater stock options to purchase 215,000 shares of common stock previously granted to employees and officers under Odyssey s 1997 Employee Stock Option Plan with exercise prices of $5.00 per share. The exercise price of the options was not changed. The primary purpose of the accelerated vesting of these out of the money options is to reduce the Company s future reportable compensation expense upon the adoption of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share Based Payment, effective for our fiscal year beginning January 1, 2006. The valuation for the accelerated options has been included herein. By taking this approach, we expect to eliminate a charge to our income statement of approximately $680,000 during 2006 and $40,000 in 2007.

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 the entire deferred tax asset will not be realized.

NOTE C - INVENTORY

Our inventory consisted of the following:

	September 30, 2005	December 31, 2004

Artifacts	$ 9,552,257	$ 9,220,118
Merchandise	514,540	43,684
Packaging	638,126	440,927
Total Inventory	$ 10,704,923	$ 9,704,729

Of these amounts $3,324,615 and $3,759,552 are classified as current as of September 30, 2005 and December 31, 2004 respectively.

NOTE D - INCOME TAXES

As of September 30, 2005, the Company had consolidated income tax net operating loss (NOL) carryforwards for federal tax purposes of approximately $27 million. The NOL will expire in various years ending through the year 2025.

For the nine-month periods ended September 30, 2005 and November 30, 2004, the components of the provision for income taxes (benefit) are attributable to continuing operations as follows:

	September 30, 2005	November 30, 2004
Current		
Federal	$	$
State		
	$	$
Deferred		
Federal	$ (2,655,875)	$ 2,980,125
State	(242,366)	481,157
	$ (2,898,241)	$ 3,461,282

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE D - INCOME TAXES - continued

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	$ 10,194,710
Accrued expenses	239,062
Reserve for accounts receivable	31,371
Less: valuation allowance	
	$ 10,465,143
Deferred tax liability:	
Property and equipment basis	$ 71,319
Prepaid expenses	117,018
Excess of tax over book depreciation	655,740
Artifacts recovery costs	3,441,315
	$ 4,285,392
Net deferred tax asset	$ 6,179,751
Plus: current net deferred tax liability	629,055
Net non-current deferred tax asset	$ 6,808,806

As reflected above, the Company has recorded a net deferred tax asset of $6,179,751 at September 30, 2005. 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 follows:

September 30, 2005	$
December 31, 2004	$ 10,993
Change in valuation allowance	$ (10,993)

Income taxes for the nine-month periods ended September 30, 2005 and November 30, 2004 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:

	September 30, 2005	November 30, 2004
Expected provision (benefit)	$ (2,418,045)	$ 2,974,426
State income taxes net of federal benefits	(167,966)	393,640
Nondeductible expenses	19,922	8,165
Change in valuation allowance	(10,993)	10,993
Effects of:		
Change in rate estimate	(334,898)	101,535
Estimate of net operating loss		87,031
Other, net	13,739	(114,508)
	$ (2,898,241)	$ 3,461,282

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE D - INCOME TAXES - continued

During the nine-month periods ended September 30, 2005 and November 30, 2004, the Company recognized certain tax benefits related to stock option plans in the amount of $453,110 and $0 respectively. Such benefits were recorded as an increase in the deferred tax asset and an increase in additional paid-in capital.

NOTE E - CONTINGENCIES

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 plaintiff s allegations include breach of fiduciary duty, civil conspiracy and breach of contract based primarily upon an alleged contract(s) between the plaintiff s and Seahawk dated May 16, 1995 dealing with the search for the S.S. Republic. The plaintiff s 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 parties are engaging in discovery. The South Carolina court has not yet heard nor ruled on the Motion. Management believes that the lawsuit is without merit and intends to vigorously defend the action.

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

NOTE F RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2005, a construction company, owned by the stepson of an officer of the Company was paid for renovation services on our corporate headquarters building amounting to $3,200 and $103,675, respectively. Also, the spouse of a Company officer performed logo design services for the same nine month period amounting to $3,525.

NOTE G LOAN PAYABLE

Revolving Credit Facility

On April 21, 2005, we entered into a $6 million revolving credit facility from the Mercantile Bank (the Bank). The credit facility replaces the Company s prior credit facility with The Bank of Tampa. The credit facility has a floating interest rate equal to the LIBOR 30-Day Index Rate plus two hundred sixty-five basis points (2.65%), requires monthly payments of interest only and is due in full on April 21, 2008. The Company will also be required to pay the Bank an unused line fee equal to 0.25% per annum of the unused portion of the credit line, payable quarterly. The line of credit is secured by $4 million of numismatic quality gold coins and 10,000 silver coins recovered by the Company from the SS Republic shipwreck. The Company s custodian will hold the coins used as collateral until released by the Bank. Additionally, the Company granted a first lien position on all corporate assets, including a provision not to pledge as collateral our Company-owned vessels. The Company is required to comply with a number of covenants including maintaining a minimum stockholders equity of $20,000,000, which amount may be increased after the first year.

NOTE H COMMON STOCK

During the quarter ended September 30, 2005, a total of 2,018,800 shares of common stock were issued for the exercise of warrants at an exercise price of $2.50 per share. Proceeds of $5,047,000 were realized from the exercise of the warrants which were due to expire on October 5, 2005.

During the quarter ended September 30, 2005 we issued 100,000 warrants having an exercise price of $5.25 per share to a vendor for services relating to a marketing program. These warrants become vested and earned based upon future performance of the program, and may not be exercised until earned, therefore expense will not be recorded until the warrants are vested and earned.

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NOTE I SEGMENT REPORTING

SFAS 131, Disclosures about Segments of an Enterprise and Related information, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. The Company manages and evaluates the operating results of the business in two primary segments, shipwreck exploration and themed attractions. Because of the expansion of our themed attractions, this is the first financial reporting period which includes segment information.

Shipwreck Exploration This segment includes all operating activities for exploration and recovery of deep-water shipwrecks including the marketing, promotion and distribution of recovered artifacts, related replicas, merchandise and books through various retail and wholesale sales channels.

Themed Attractions This segment is responsible for the development and operation of interactive attractions and exhibits which will entertain and educate multi-generational audiences, and present our unique shipwreck stories and artifacts.

The accounting policies of the business segments are the same as those described in the summary of significant accounting policies included in Note A. Management evaluates the operating results of each of its reportable segments based upon revenues and operating income (loss) before taxes. Corporate overhead supporting segments including legal, finance, human resources, information technology, real estate facilities, as well as stock based compensation is included within the shipwreck exploration segment and not allocated to themed attractions.

All revenues for the three and nine months ended September 30, 2005, were primarily derived from the shipwreck exploration segment. The Company celebrated the grand opening of its first themed attraction, Odyssey Shipwreck & Treasure Adventure, on August 27, 2005, at the Jax Brewery complex in the French Quarter of New Orleans. The attraction was closed early on the grand opening day due to Hurricane Katrina. The Jax Brewery building in which the attraction resides remains closed. We have been informed by the building manager that the building will remain closed while their loss consultants determine the extent of property damage and make necessary repairs due to the storm damage. There was no flooding in the immediate area. The Odyssey attraction sustained minimal damage and Odyssey was able to safely remove all irreplaceable artifacts and valuables including all coins and other high-value items from New Orleans. Odyssey carries $4.5 million of insurance coverage for the attraction including property and business income. The Company has reserved $91,000 representing the deductible portion of estimated damages to the property and equipment.

(amounts in thousands)	**Shipwreck**	**Themed**
Segment Information	**Exploration**	**Attractions**
Three months ended September 30, 2005		
Revenues from external customers	$ 967	$ 20
Intersegment revenues	$	$
Segment profit (loss)	$ (4,367)	$ (981)
Nine months ended September 30, 2005		
Revenues from external customers	$ 8,142	$ 20
Intersegment revenues	$	$
Segment profit (loss)	$ (5,621)	$ (1,479)
Segment assets	$ 32,463	$ 4,909

NOTE J SUBSEQUENT EVENTS

During the period from October 1 through October 5, 2005, a total of 1,458,700 warrants for the purchase of common stock at an exercise price of $2.50 per share were exercised. Proceeds of $3,646,750 were realized from the exercise of the warrants which were due to expire on October 5, 2005. All of the expiring warrants were exercised.

On October 5, 2005 we entered into a renewal of a Charter Party Agreement in which we have exclusive use of the vessel we have utilized for our Atlas project for a twelve month period beginning October 1, 2005. Our commitment under the agreement is for a minimum of 450,000 pounds sterling (approximately $800,000 U.S. dollars) to be paid in equal monthly installments.

On November 1, 2005, we forfeited $50,000 by exercising our termination right for leased property relating to our second themed attraction facility. While negotiations may continue on this property, the company has $267,000 additional investment at risk if we decide not to pursue this location.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS

The following discussion will assist in the understanding of our financial position and results of operations. The information below should be read in conjunction with the financial statements, the related notes to the financial statements and our report on Form 10-KSB, as amended for the transition period ended December 31, 2004.

This discussion contains both historical and forward-looking information. We assess the risks and uncertainties about our business, long-term strategy, and financial condition before we make any forward-looking statements, but we cannot guarantee that our assessment is accurate or that our goals and projections can or will be met. Statements concerning results of future search operations, recovery operations, attraction openings, marketing strategies and similar events are forward-looking statements within the meaning of Securities laws and regulations.

Overview

We are in the business of shipwreck exploration, archeological excavation, entertainment, education and marketing. The Company manages and evaluates the operating results of the business in two primary segments: shipwreck exploration and themed attractions.

Shipwreck Exploration This segment includes all operating activities for exploration and recovery of deep-water shipwrecks including the marketing, promotion and distribution of recovered artifacts, related replicas, merchandise and books through various retail and wholesale sales channels. The departments included within this group include our marine operations, archaeology and research, marketing and sales and administration.

Marine operations is tasked with the discovery and recovery of deep-ocean shipwrecks utilizing state-of-the-art technology, including side scan sonar, remotely operated vehicles (ROVs), and other advanced technology. They oversee all ships, offshore technology, and ship and technical crews. The marine operations team has also developed proprietary procedures, software and equipment to improve the quality and speed of deep-ocean shipwreck operations.

Our archaeology and research department supports marine operations by providing target information as well as conducting historical research on artifacts recovered from unknown shipwrecks. After recovered items are returned to shore, our conservation department stabilizes the artifacts and ultimately brings them to their final state of conservation. This department also provides the curation of company owned artifacts.

Our marketing and sales department includes our support functions for the promotion and distribution of our products through both retail and wholesale channels. Our direct retail sales effort provides an alternative distribution channel for our shipwreck products. In addition to obtaining retail pricing through direct channels, the marketing team is building a client base of customers interested in shipwreck collectibles. We continue to sell mostly graded gold coins through wholesale channels consisting of selected independent coin dealers.

Our administrative department oversees all aspects of our business management and reporting including compliance. They are also responsible for our public and investor relations, finance and accounting, information technology, legal and human resources.

Themed Attractions Our themed attractions group is responsible for interactive attractions and exhibits that will entertain and educate multi-generational audiences, and present Odyssey s unique shipwreck stories and artifacts. The exhibits showcase our proprietary technology and the excitement of deep ocean archeological shipwreck search and recovery. On June 8, 2005, we announced that a newly formed subsidiary, Odyssey Marine Entertainment, Inc., would open an interactive shipwreck and treasure attraction in the French Quarter of New Orleans, Louisiana. Located in the Jax Brewery, Odyssey s Shipwreck & Treasure Adventure is expected to appeal to the public fascination with shipwrecks and sunken treasure. The attraction will tell the stories behind some of the world s most famous shipwrecks, their treasure and historical artifacts, and will allow visitors to experience the adventure and excitement of deep-ocean shipwreck exploration through multiple hands-on exhibits.

We held the grand opening of our first themed attraction, Odyssey Shipwreck & Treasure Adventure, on August 27, 2005, at the Jax Brewery complex in the French Quarter of New Orleans. The attraction was closed early on the grand opening day due to Hurricane Katrina. The Jax Brewery building in which the attraction resides remains closed. We have been informed by the building manager that the building will remain closed while their loss consultants determine the extent of property damage and make necessary repairs due to the storm damage. There was no flooding in the immediate area. The Odyssey attraction sustained minimal damage and we were able to safely remove all irreplaceable artifacts and valuables including all coins and other high-value items. Odyssey carries $4.5 million of insurance coverage for the attraction including property and business income. The Company has reserved $91,000 representing the deductible portion of estimated damages to the property and equipment. We are currently evaluating our business alternatives for our New Orleans attraction. We also have a second attraction in development with plans to roll out in 2006.

Operational Update

The Company announced that 2005 operations on the Atlas search project will be suspended through the winter months due to inclement weather while the *Odyssey Explorer* is deployed to the Western Mediterranean to begin operations on HMS *Sussex*. The Atlas project is believed to be the most extensive shipwreck search operation ever launched and is utilizing the *Odyssey Explorer* deploying the Remotely Operated Vehicle (ROV) *ZEUS* for target inspection and artifact recovery, and a second search ship using a new, advanced side-scan system to search the ocean bottom. A minimum of five high-value shipwrecks are believed to be in this search area.

The 2005 search operations, which were initially announced May 4th, have resulted in the mapping of over 4,600 square miles of the search area. Results include the discovery of 2,421 anomalies on the sea floor using an advanced high-resolution side-scan sonar system. After post-processing data, over 1,100 of those anomalies were selected for possible further examination. Of those, 577 sites have been inspected and at least 180 are believed to be manmade or shipwreck sites.

Of the shipwrecks inspected by *ZEUS*, several exhibit key characteristics of some of the target shipwrecks being sought as part of the Atlas search project. Odyssey is currently analyzing high-definition video, digital photos and collected artifacts to determine the potential identity, cultural significance, and economic value of the inspected sites. Odyssey intends to complete the search of the Atlas area in 2006 when the weather window re-opens. (For reasons of security and strategic confidentiality, the Company does not disclose the location of the Atlas project area.)

The *Odyssey Explorer*, Odyssey s 251-foot deep ocean archaeological platform is currently being mobilized to resume operations on the shipwreck believed to be HMS *Sussex*. While en route to the Western Mediterranean, the *Odyssey Explorer* may spend several additional days inspecting targets discovered during the Atlas search, weather conditions permitting. *Sussex* operations are expected to commence shortly after the *Odyssey Explorer* reaches the Western Mediterranean.

Critical Accounting Policies and Changes to Accounting Policies

There have been no material changes in our critical accounting estimates since December 31, 2004, nor have we adopted any accounting policy that has or will have a material impact on our consolidated financial statements.

Results of Operations

Three months ended September 30, 2005 compared to three months ended November 30, 2004

During the last year we changed our fiscal year to a calendar year which means that our quarter to quarter comparison will be for the periods of July 1 September 30, 2005 compared to September 1 November 30, 2004. We have chosen not to recast the prior period because of implementation of a new accounting system in 2005 and limited available resources. Also, we believe this period to period comparison is reasonable since our current business plan is not subject to seasonality or other major factors affecting the comparison of information. The dollar values discussed below, except as otherwise indicated, are approximations to the nearest $100,000.

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	(Unaudited)			
			Incr/(Decr)	
	2005	2004	$ Var	% Var
Revenue	$ 1.0	$ 6.3	$ (5.3)	(84)%
Cost of sales	.2	.3	(.1)	(34)%
Marketing, general & administrative	2.3	1.4	.9	69%
Operations & research	3.8	.7	3.1	441%
Total cost and expenses	$ 6.3	$ 2.4	$ 3.9	167%

Revenue

Revenues are generated primarily through the sale of gold and silver coins, but also include other artifacts and merchandise. Revenues for 2005 and 2004 were $1.0 million and $6.3 million, respectively. In 2005 sales were made through independent coin dealers at wholesale prices as well as through our direct retail sales. In 2004 sales were made only through independent coin dealers. Revenues were significantly lower in 2005 versus 2004 due to a number of factors.

We continue to sell numismatic coins to independent coin dealers. During the third quarter 2005 we experienced a decrease in numismatic gold coin revenue, relative to 2004, due to a lower availability of our highest value gold coins and a desire to maximize total revenue from coin inventory. We are continuing to develop additional indirect sales channels to supplement our coin dealer network for our non-graded gold, shipwreck effect silver coins and for other merchandise. While significant revenue has not yet been realized from these new indirect sales channels, we are building additional distribution for Odyssey shipwreck products, which should begin producing revenue by early 2006.

We continued to develop retail distribution of coins in our direct retail sales channels where our gross margins are much higher. However, during the third quarter 2005, sales were lower than expected as we planned to obtain retail leads from our New Orleans attraction to supplement our direct response advertising. Hurricane Katrina closed down the attraction, thereby preventing any access to retail leads that were to have been furnished to our direct sales operation.

We are continuing to build a client base in our direct sales department and we believe sales volumes will increase as we continue to expand our book sales, direct response print, television and radio marketing efforts, as well as access to leads generated by our attraction and other activities.

Costs and Expenses

Cost of sales consists of shipwreck recovery costs, grading, conservation, packaging, and shipping costs associated with artifact, merchandise and book sales. Cost of sales as a percentage of revenue for 2005 and 2004 was 19% and 5%, respectively. The lower cost of sales percentage in 2004 is attributable to a high sales mix of gold coins.

The major factors that contribute to cost of sales as a percentage of revenue include capitalized ship recovery costs, number of artifacts recovered, revenue per artifact sold and the cost of merchandise and books. Cost of sales as a percentage of revenue will change depending on the sales mix because of the significantly higher unit sales prices for gold than silver coins and other merchandise.

Marketing, general and administrative expenses were $2.3 million in 2005 as compared to $1.4 million in 2004. We continued expansion of our corporate support functions due to execution of our business plan primarily associated with continued development of our search and recovery projects and expansion of our marketing and sales function. Of the $.9 million increase, $.5 million resulted from expansion of our marketing and sales function primarily associated with development of our direct sales effort. Additionally, $.2 million related to our themed attractions group and $.2 million was attributable to general and administration expenses, information technology, professional and audit services primarily related to the implementation of Sarbanes-Oxley.

Operations and research expenses were $3.8 million in 2005, compared to $.7 million in 2004. Of the $3.1 million increase, $1.6 million was due to vessel recovery costs not being capitalized during 2005, $.8 million was due to start up operations in our themed attractions group, and $.7 million was attributable to vessel operations which included additional costs for chartering a vessel to conduct search operations for the Atlas project.

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Nine months ended September 30, 2005 compared to nine months ended November 30, 2004

During the last year we changed our fiscal year to a calendar year which means that our year-to-date comparison will be for the periods of January 1 September 30, 2005 compared to March 1 November 30, 2004. We have chosen not to recast the prior period because of implementation of a new accounting system in 2005 and limited available resources. Also, we believe this period to period comparison is reasonable since our current business plan is not subject to seasonality or other major factors affecting the comparison of information. The dollar values discussed below, except as otherwise indicated, are approximations to the nearest $100,000.

	(Unaudited)			
			Incr/(Decr)	
	2005	2004	$ Var	% Var
Revenue	$ 8.2	$ 15.9	$ (7.7)	(49)%
Cost of sales	.8	1.8	(1.0)	(58)%
Marketing, general & administrative	6.5	3.6	2.9	81%
Operations & research	7.9	1.7	6.2	370%
Total cost and expenses	$ 15.2	$ 7.1	$ 8.1	114%

Revenue

Revenues are generated primarily through the sale of gold and silver coins, but also include other artifacts and merchandise. Revenues for 2005 and 2004 were $8.2 million and $15.9 million, respectively. In 2005 sales were made through independent coin dealers at wholesale prices as well as through our direct retail sales telemarketing area. In 2004 sales were made only through independent coin dealers. Revenues were significantly lower in 2005 versus 2004 due to a number of factors.

We continue to sell numismatic coins to independent coin dealers. During the third quarter 2005 we experienced a decrease in numismatic gold coin revenue, relative to 2004, due to a lower availability of our highest value gold coins and a desire to maximize total revenue from coin inventory. We are continuing to develop additional indirect sales channels to supplement our coin dealer network for our non-graded gold, shipwreck effect silver coins and for other merchandise. While significant revenue has not yet been realized from these new indirect sales channels, we are building additional distribution for Odyssey shipwreck products, which should begin producing revenue by early 2006.

We continued to develop retail distribution of coins in our direct retail sales channels where our gross margins are much higher. However, during the third quarter 2005, sales were lower than expected as we planned to obtain retail leads from our New Orleans attraction to supplement our direct response advertising. Hurricane Katrina closed down the attraction, thereby preventing any access to retail leads that were to have been furnished to our direct sales operation.

We are continuing to build a client base in our direct sales department and we believe sales volumes will increase as we continue to expand our book sales, direct response print, television and radio marketing efforts, as well as access to leads generated by our attraction and other activities.

Costs and Expenses

Cost of sales consists of shipwreck recovery costs, grading, conservation, packaging, and shipping costs associated with artifact, merchandise and book sales. Cost of sales as a percentage of revenue for 2005 and 2004 was 9% and 11%, respectively.

The major factors that contribute to cost of sales as a percentage of revenue include capitalized ship recovery costs, number of artifacts recovered, revenue per artifact sold and the cost of merchandise and books. Cost of sales as a percentage of revenue will change depending on the sales mix because of the significantly higher unit sales prices for gold than silver coins and other merchandise.

Marketing, general and administrative expenses were $6.5 million in 2005 as compared to $3.6 million in 2004. We continued expansion of our corporate support functions due to execution of our business plan primarily associated with continued development of our search and recovery projects, expansion of our marketing and sales function, and expansion of our corporate support functions. Of the $2.9 million increase, $1.5 million resulted from expansion of our marketing and sales function primarily associated with development of a direct sales

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effort and $.5 million related to our themed attractions segment. Additionally, $1.0 million was attributable to general and administration expenses, information technology, professional and audit services primarily related to the implementation of Sarbanes-Oxley, corporate expenses and publishing.

Operations and research expenses were $7.9 million in 2005, compared to $1.7 million in 2004. Of the $6.2 million increase in 2005, $3.9 million was because vessel recovery costs were not capitalized since February 2005 since our recovery vessel left the SS Republic site in mid-February. Vessel recovery costs of $4.5 million were capitalized in 2004 versus $.6 million in 2005. Additionally, $1.2 million was attributable to vessel operations which included additional costs for chartering a vessel to conduct search operations for the Atlas project; $.3 million related to our research and conservation efforts; and $.9 million was attributable to start up operations of our themed attractions group, primarily do to the opening of our Odyssey Shipwreck & Treasure Adventure in New Orleans.

Liquidity and Capital Resources

General

At September 30, 2005, we had cash and cash equivalents of $4.4 million, an increase of $1.4 million from the December 31, 2004 balance of $3.0 million. Working capital and the ratio of current assets to current liabilities were $6.3 million and 3.2 to 1, respectively at September 30, 2005, compared with $8.4 million and 4.0 to 1, respectively, at December 31, 2004.

During March 2005, we received approximately $6.4 million from the sale of 2.7 million shares of common stock which was raised as part of a private placement.

During April 2005 we entered into a $6 million revolving credit facility with the Mercantile Bank. The credit facility replaced the Company s prior credit facility with The Bank of Tampa. The line of credit is secured by $4 million of numismatic quality gold and 10,000 silver coins recovered by the Company from the SS Republic shipwreck and other assets. The Company intends to use the line of credit as a means to fund ongoing operations and equipment acquisitions as the need arises.

During the quarter ended September 30, 2005, over $5 million was received from the exercise of 2,018,800 outstanding warrants which had an expiration date of October 5, 2005. The warrants were primarily issued as part of previous private placements and all were exercisable at a price of $2.50 per share. The remaining outstanding warrants, which were to expire on October 5, 2005, were exercised during the first week of October, prior to the warrant expiration, for an additional $3.6 million.

The net proceeds from the private placement offering and warrant exercise is being used to acquire additional equipment and technology to expand our search and recovery capabilities, to fund search and recovery operations, to fund themed attractions development and for general business purposes.

We held the grand opening of our first themed attraction, Odyssey Shipwreck & Treasure Adventure, on August 27, 2005, at the Jax Brewery complex in the French Quarter of New Orleans. The attraction was closed early on the grand opening day due to Hurricane Katrina. We are currently evaluating our business alternatives for our New Orleans attraction. We also have a second attraction in development with plans for roll out in 2006. We anticipate the funding for the completion of the second exhibit will come from bank financing, through revenue generated from the sale of recovered cargoes or through existing working capital.

Source and Use of Funds

Net cash used in operating activities in the nine months 2005 was $6.1 million. Cash used in operating activities for the nine months of 2005 primarily reflected an operating loss of $4.2 million, and an increase in the net deferred tax asset of $3.4 million offset by a decrease in accounts receivable of $1.5 million. The net cash provided in operating activities for the nine months of 2004 primarily reflected positive operating results and deferred income taxes offset by an increase in inventory and accounts receivable.

Cash flows used in investing activities were $5.4 million and $3.6 million for the nine months periods in 2005 and 2004, respectively. Cash used in investing activities for the nine months of 2005 primarily reflected $3.8 million for capital expenditures for our new themed attraction exhibits including our New Orleans attraction, $1.4 million used for the capital expenditures for property and equipment and $.2 million for building improvements. Cash used in investing activities for the nine months of 2004 primarily reflected the cash purchase of our office building and improvements, property and equipment and capital expenditures related to attraction development.

Cash flows provided by financing activities were $13.0 million and $3.1 million for the nine months of 2005 and 2004, respectively. In the nine months of 2005, the cash provided by financing activities included $13.5 million for the issuance of common stock of which $5.1 was due to outstanding warrants and $6.4 million due to common shares issued in the private placement, offset by $.4 million in brokerage commissions and fees on the private offering and $.1 million mortgage repayment. Cash provided by financing activities in the nine months of 2004 included the net proceeds from the sale of marketable securities of $2.0 million and $1.0 million from the proceeds of sale of common stock.

Based upon past performance and current expectations, we believe that our cash and cash equivalents, cash generated from operations, bank credit facility, and recent equity private placement and warrant exercises will satisfy our working capital needs, capital expenditures, investment requirements, and other liquidity requirements associated with our existing operations through at least year end.

Off Balance Sheet Requirements

We do not engage in off-balance sheet financing arrangements. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities (SPEs) and structured finance entities.

Recently Issued Accounting Standards Not Currently Effective

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123(R) (revised 2004), Share-Based Payment (FAS No. 123). FAS No.123 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. FAS No. 123 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Under FAS No. 123(R), Odyssey, beginning in the first quarter of 2006, will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). The cost will be recognized over the period during which an employee is required to provide services in exchange for the award.

Currently, the Company discloses the estimated effect on net income of these share-based payments in the footnotes to the financial statements. The estimated fair value (cost) of the share-based payments has historically been determined using the Black-Scholes pricing model. As of the date of this report, the Company has not determined which method to use upon implementation of this standard. The actual compensation cost resulting from share-based payments to be included in the Company s future results of operations may vary from the amounts currently disclosed in the footnotes to the financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. We do not believe we have material market risk exposure and have not entered into any market risk sensitive instruments to mitigate these risks or for trading or speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

Odyssey maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this report, based on an evaluation carried out under the supervision and with the participation of Odyssey s management, including the chief executive officer (CEO) and chief financial officer (CFO), of the effectiveness of our disclosure controls and procedures, the CEO and CFO have concluded that Odyssey s disclosure controls and procedures are effective. There have been no significant changes in the Company s internal controls over financial reporting during the third quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

On or about December 14, 2004 a complaint was filed against seven defendants including the Company in the Court of Common Pleas in the Ninth Judicial Circuit, County of Charleston, in the State of South Carolina. The complaint was filed by Republic & Eagle Associates, Inc. and Sea Miners, Inc. against John Morris, Greg Stemm, John Lawrence, John Balch, Daniel Bagley, Seahawk Deep Sea Technologies, Inc. (Seahawk) and the Company. The plaintiff s 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

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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 parties are engaging in discovery. The South Carolina court has not yet heard nor ruled on the Motion.

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

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

There were no unregistered sales of equity securities during the three months ended September 30, 2005, that have not been reported in a Current Report on Form 8-K, except as follows:

During the three months ended September 30, 2005, we issued 2,018,800 shares of our common stock to 27 investors who exercised warrants. The Company received a total of $5,047,000 in cash from these investors. The securities were issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933. The purchasers of these securities are accredited investors who made an informed investment decision and had access to material information regarding the Company. The certificates representing the common shares bear an appropriate legend restricting the transfer of such securities, and stop transfer instructions have been provided to our transfer agent in accordance therewith. The shares of common stock issued in the warrant exercises have been registered in a Form S-3 registration statement under the Securities Act of 1933 for resale by the holders of the shares.

During the three months ended September 30, 2005 we issued non-transferable warrants to purchase 100,000 shares of common stock at an exercise price of $5.25 per share to a vendor for services relating to a marketing program. These warrants become vested based upon future performance of the program, and may not be exercised until earned. Once vested, the warrants will be exercisable for a period of two years. The securities were issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933. The vendor is a sophisticated investor who made an informed investment decision and had access to material information regarding the Company.

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.

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

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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: November 9, 2005	By: /s/ Michael J. Holmes
	Michael J. Holmes, Chief Financial Officer and Authorized Officer