

ODYSSEY MARINE EXPLORATION INC

Form 10-Q

November 10, 2014

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**UNITED STATES**

**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, 2014**

**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 001-31895**

**ODYSSEY MARINE EXPLORATION, INC.**

**(Exact name of registrant as specified in its charter)**

**Nevada**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**84-1018684**  
**(I.R.S. Employer**  
**Identification No.)**

**5215 W. Laurel Street, Tampa, Florida 33607**  
**(Address of principal executive offices) (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  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer:  Accelerated filer:   
Non-accelerated filer:  (Do not check if a smaller Reporting company) Smaller reporting company:   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

The number of outstanding shares of the registrant's Common Stock, \$.0001 par value, as of November 5, 2014 was 85,321,008.

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**Table of Contents****PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	(Unaudited) September 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,711,573	\$ 21,322,257
Restricted cash	664,348	10,685,732
Accounts receivable and other, net	6,420,437	207,005
Inventory	676,367	314,738
Other current assets	598,349	1,080,364
Total current assets	12,071,074	33,610,096
<b>PROPERTY AND EQUIPMENT</b>		
Equipment and office fixtures	24,757,344	21,995,031
Building and land	4,783,687	4,756,306
Accumulated depreciation	(20,735,130)	(16,973,085)
Total property and equipment	8,805,901	9,778,252
<b>NON-CURRENT ASSETS</b>		
Inventory	5,131,223	5,206,318
Other non-current assets	1,289,802	2,865,941
Total non-current assets	6,421,025	8,072,259
Total assets	\$ 27,298,000	\$ 51,460,607
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,832,010	\$ 3,472,612
Accrued expenses and other	3,212,858	5,294,420
Derivative liabilities	1,125,749	970,823
Deferred income and revenue participation rights	1,840,404	1,840,404
Mortgage and loans payable	9,363,313	16,369,582
Total current liabilities	19,374,334	27,947,841

LONG-TERM LIABILITIES		
Mortgage and loans payable	7,980,758	5,662,226
Deferred income and revenue participation rights	4,643,750	4,643,750
Total long-term liabilities	12,624,508	10,305,976
Total liabilities	31,998,842	38,253,817
Commitments and contingencies (Note H)		
STOCKHOLDERS EQUITY		
Preferred stock - \$.0001 par value; 9,675,200 shares authorized; none outstanding		
Preferred stock series D convertible - \$.0001 par value; 134,800 shares authorized; 32,400 issued and outstanding	3	3
Common stock \$.0001 par value; 150,000,000 shares authorized; 85,321,008 and 83,882,577 issued and outstanding, respectively	8,532	8,388
Additional paid-in capital	197,841,727	193,272,576
Accumulated deficit	(197,183,901)	(175,954,138)
Total stockholders equity before non-controlling interest	666,361	17,326,829
Non-controlling interest	(5,367,203)	(4,120,039)
Total stockholders equity	(4,700,842)	13,206,790
Total liabilities and stockholders equity	\$ 27,298,000	\$ 51,460,607

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

**Table of Contents****ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited**

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
<b>REVENUE</b>				
Artifact sales and other	\$ 95,046	\$ 5,534,933	\$ 982,912	\$ 6,565,579
Exhibit	25,000	19,527	51,484	100,218
Expedition				5,480
<b>Total revenue</b>	<b>120,046</b>	<b>5,554,460</b>	<b>1,034,396</b>	<b>6,671,277</b>
<b>OPERATING EXPENSES</b>				
Cost of sales artifacts and other	27,026	169,573	204,516	410,357
Marketing, general and administrative	2,782,362	4,670,196	8,191,210	10,390,087
Operations and research	5,114,499	4,159,412	14,957,889	19,403,757
<b>Total operating expenses</b>	<b>7,923,887</b>	<b>8,999,181</b>	<b>23,353,615</b>	<b>30,204,201</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(7,803,841)</b>	<b>(3,444,721)</b>	<b>(22,319,219)</b>	<b>(23,532,924)</b>
<b>OTHER INCOME (EXPENSE)</b>				
Interest income	557	4,074	25,194	6,829
Interest expense	(268,892)	(894,076)	(931,819)	(2,883,617)
Change in derivative liabilities fair value	305,841	870,453	676,820	2,206,642
(Loss) from unconsolidated entity			(522,500)	
Other	92,497	114,980	113,540	139,667
<b>Total other income (expense)</b>	<b>130,003</b>	<b>95,431</b>	<b>(638,765)</b>	<b>(530,479)</b>
<b>(LOSS) BEFORE INCOME TAXES</b>	<b>(7,673,838)</b>	<b>(3,349,290)</b>	<b>(22,957,984)</b>	<b>(24,063,403)</b>
Income tax benefit (provision)		(235,249)	481,055	(335,991)
<b>NET (LOSS) BEFORE NON-CONTROLLING INTEREST</b>	<b>(7,673,838)</b>	<b>(3,584,539)</b>	<b>(22,476,929)</b>	<b>(24,399,394)</b>
Non-controlling interest	258,714	2,653,146	1,247,166	2,906,646
<b>NET (LOSS)</b>	<b>\$ (7,415,124)</b>	<b>\$ (931,393)</b>	<b>\$ (21,229,763)</b>	<b>\$ (21,492,748)</b>
<b>NET (LOSS) PER SHARE</b>				
Basic and diluted (See NOTE B)	\$ (.09)	\$ (.01)	\$ (.25)	\$ (.27)

Weighted average number of common shares outstanding with participating securities per the two-class method

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Basic	85,271,429	80,252,203	84,707,367	78,991,192
Diluted	85,271,429	80,252,203	84,707,367	78,991,192

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

**Table of Contents****ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited**

	<b>Nine Months Ended</b>	
	<b>September 30, 2014</b>	<b>September 30, 2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss before non-controlling interest	\$ (22,476,929)	\$ (24,399,394)
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation and amortization	3,802,547	1,398,541
Investment in consolidated entity		(301,093)
Loss in unconsolidated entity	522,500	
Reversal of bad debt provision	(522,500)	
Loan fee amortization	15,046	160,154
Change in derivatives liabilities fair value	(676,820)	(2,206,642)
Note payable interest accretion	302,744	1,641,325
Senior debt interest settled with common stock	73,037	489,961
Settlement of vendor payable with subsidiary stock		625,000
Share-based compensation	1,785,306	2,123,706
(Increase) decrease in:		
Restricted cash	21,384	(284,339)
Accounts receivable	(6,213,432)	(4,682,426)
Inventory	(286,534)	434,116
Other assets	2,043,110	(506,055)
Increase (decrease) in:		
Accounts payable	359,400	453,770
Accrued expenses and other	(1,750,527)	(9,719,353)
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(23,001,668)</b>	<b>(34,772,729)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(2,830,198)	(3,286,521)
Investment in consolidated entity		(1,250,000)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(2,830,198)</b>	<b>(4,536,521)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock		6,039,905
Proceeds from sale of subsidiary stock		25,000,000
Proceeds from issuance of loan payable	12,684,514	10,000,000
Restricted cash held as collateral on loan payable	10,000,000	
Repayment of mortgage and loans payable	(14,463,332)	(654,033)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>8,221,182</b>	<b>40,385,872</b>



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NET (DECREASE) INCREASE IN CASH	(17,610,684)	1,076,622
CASH AT BEGINNING OF PERIOD	21,322,257	10,096,414
CASH AT END OF PERIOD	\$ 3,711,573	\$ 11,173,036
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest paid	\$ 648,547	\$ 392,719
Income taxes paid	\$ 15,000	\$
<b>NON-CASH TRANSACTIONS:</b>		
Accrued compensation paid by equity instruments	\$ 113,126	\$ 165,748
Investment in unconsolidated entity per debt conversion into entity shares (See NOTE F)	\$ 522,500	\$
Equipment purchased with financing	\$	\$ 756,795
Debt repayment with common shares	\$ 2,347,826	\$ 7,826,086

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

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**ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements of Odyssey Marine Exploration, Inc. and subsidiaries (the Company, Odyssey, us, we or our ) 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. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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, 2014, and the results of operations and cash flows for the interim periods presented. Operating results for the three-month period and nine-month period ended September 30, 2014, 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 direct and indirect wholly owned subsidiaries, Odyssey Marine Services, Inc., OVH, Inc., Odyssey Retriever, Inc., Odyssey Marine Entertainment, Inc., Odyssey Marine Enterprises, Ltd., Odyssey Marine Management, Ltd., Oceanica Marine Operations, S.R.L., and majority interest in Oceanica Resources, S.R.L. and Exploraciones Oceanicas, S. De R.L. De C.V. Equity investments in which we exercise significant influence but do not control and of which we are not the primary beneficiary are accounted for using the equity method. All significant inter-company and intra-company transactions and balances have been eliminated. The results of operations attributable to the non-controlling interest are presented within equity and net income, and are shown separately from the Company's equity and net income attributable to the Company.

During the year ended December 31, 2013, our wholly owned subsidiary, Odyssey Marine Enterprises, Ltd., sold 24 million cuotas (shares) of its position in Oceanica Resources, S.R.L. for \$27.5 million in cash to a third-party investment group. According to the Accounting Standards Codification ( ASC ) 810 *Consolidation*, paragraph 810-10-45-23, we have accounted for this transaction as an equity transaction. Therefore, no gain or loss has been recognized in consolidated net income or comprehensive income.

**Use of Estimates**

Management used 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**

In accordance with Topic A.1. in SAB 13: Revenue Recognition, exhibit and expedition charter revenue is recognized ratably when realized and earned as time passes throughout the contract period as defined by the terms of the agreement. Expenses related to the exhibit and expedition charter revenue are recorded as incurred and presented under the caption Operations and r