

ODYSSEY MARINE EXPLORATION INC
Form 10-Q
August 11, 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 June 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 **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 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 July 21, 2014 was 85,229,295.

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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) June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,731,262	\$ 21,322,257
Restricted cash	800,518	10,685,732
Accounts receivable and other, net	3,845,936	207,005
Inventory	661,979	314,738
Other current assets	791,009	1,080,364
Total current assets	11,830,704	33,610,096
PROPERTY AND EQUIPMENT		
Equipment and office fixtures	24,575,402	21,995,031
Building and land	4,783,687	4,756,306
Accumulated depreciation	(18,259,107)	(16,973,085)
Total property and equipment	11,099,982	9,778,252
NON-CURRENT ASSETS		
Inventory	5,152,261	5,206,318
Other non-current assets	1,290,469	2,865,941
Total non-current assets	6,442,730	8,072,259
Total assets	\$ 29,373,416	\$ 51,460,607
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,063,493	\$ 3,472,612
Accrued expenses and other	2,391,397	5,294,420
Derivative liabilities	599,844	970,823
Deferred income and revenue participation rights	1,840,404	1,840,404
Mortgage and loans payable	9,121,426	16,369,582
Total current liabilities	18,016,564	27,947,841

LONG-TERM LIABILITIES		
Mortgage and loans payable	4,554,750	5,662,226
Deferred income and revenue participation rights	4,643,750	4,643,750
Total long-term liabilities	9,198,500	10,305,976
Total liabilities	27,215,064	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; 85,229,295 and 83,882,577 issued and outstanding, respectively	8,523	8,388
Additional paid-in capital	197,027,091	193,272,576
Accumulated deficit	(189,768,776)	(175,954,138)
Total stockholders equity before non-controlling interest	7,266,841	17,326,829
Non-controlling interest	(5,108,489)	(4,120,039)
Total stockholders equity	2,158,352	13,206,790
Total liabilities and stockholders equity	\$ 29,373,416	\$ 51,460,607

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

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	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2014	2013	2014	2013
REVENUE				
Artifact sales and other	\$ 323,264	\$ 227,574	\$ 887,866	\$ 1,030,646
Exhibit	25,000	20,691	26,484	80,691
Expedition		5,480		5,480
Total revenue	348,264	253,745	914,350	1,116,817
OPERATING EXPENSES				
Cost of sales artifacts and other	57,885	95,084	177,490	240,785
Marketing, general and administrative	2,394,323	2,928,570	5,408,848	5,719,891
Operations and research	2,747,707	9,511,112	9,843,390	15,244,345
Total operating expenses	5,199,915	12,534,766	15,429,728	21,205,021
INCOME (LOSS) FROM OPERATIONS	(4,851,651)	(12,281,021)	(14,515,378)	(20,088,204)
OTHER INCOME (EXPENSE)				
Interest income	22,586	56	24,637	2,755
Interest expense	(135,307)	(918,486)	(662,927)	(1,989,541)
Change in derivative liabilities fair value	553,693	1,998,599	370,979	1,336,189
(Loss) from unconsolidated entity	(522,500)		(522,500)	
Other	11,346	1,376	21,043	24,687
Total other income (expense)	(70,182)	1,081,545	(768,768)	(625,910)
(LOSS) BEFORE INCOME TAXES	(4,921,833)	(11,199,476)	(15,284,146)	(20,714,114)
Income tax benefit (provision)	481,055	50,000	481,055	(100,742)
NET (LOSS) BEFORE NON-CONTROLLING INTEREST	(4,440,778)	(11,149,476)	(14,803,091)	(20,814,856)
Non-controlling interest	424,897	253,500	988,452	253,500
NET (LOSS)	\$ (4,015,881)	\$ (10,895,976)	\$ (13,814,639)	\$ (20,561,356)
NET (LOSS) PER SHARE				
Basic and diluted (See NOTE B)	\$ (.05)	\$ (.14)	\$ (.16)	\$ (.26)

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

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Basic	84,898,133	79,345,030	84,420,661	78,350,236
Diluted	84,898,133	79,345,030	84,420,661	78,350,236

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**

	Six Months Ended	
	June 30, 2014	June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss before non-controlling interest	\$ (14,803,091)	\$ (20,814,856)
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation and amortization	1,326,524	904,690
Investment in consolidated entity		(301,093)
Loss in unconsolidated entity	522,500	
Reversal of bad debt provision	(522,500)	
Loan fee amortization	15,046	121,909
Change in derivatives liabilities fair value	(370,980)	(1,336,189)
Note payable interest accretion	262,740	1,173,924
Senior debt interest settled with common stock	73,037	275,013
Foreign currency translation		1,303
Share-based compensation	1,220,661	1,240,773
(Increase) decrease in:		
Restricted cash	(114,786)	91,689
Accounts receivable	(3,638,931)	1,698,691
Inventory	(293,184)	304,503
Other assets	1,849,783	(1,785,426)
Increase (decrease) in:		
Accounts payable	590,883	3,362,535
Accrued expenses and other	(2,575,195)	(11,443,547)
NET CASH (USED) BY OPERATING ACTIVITIES	(16,457,493)	(26,506,081)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,648,254)	(2,628,940)
NET CASH (USED) BY INVESTING ACTIVITIES	(2,648,254)	(2,628,940)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock		4,885,655
Proceeds from sale of subsidiary stock		25,000,000
Proceeds from issuance of loan payable	7,436,514	
Restricted cash held as collateral on loan payable	10,000,000	
Repayment of mortgage and loans payable	(13,921,762)	(509,429)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,514,752	29,376,226
NET (DECREASE) INCREASE IN CASH	(15,590,995)	241,205

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CASH AT BEGINNING OF PERIOD	21,322,257	10,096,414
CASH AT END OF PERIOD	\$ 5,731,262	\$ 10,337,619
SUPPLEMENTARY INFORMATION:		
Interest paid	\$ 428,145	\$ 206,136
Income taxes paid	\$ 15,000	\$
NON-CASH TRANSACTIONS:		
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	\$ 4,695,652

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 June 30, 2014, and the results of operations and cash flows for the interim periods presented. Operating results for the three-month period ended June 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 interests 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.

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 research on our Consolidated S