ODYSSEY MARINE EXPLORATION INC
Form 10-Q
August 08, 2013
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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, 2013**

**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 x 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 x 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: | x |
| 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 x

The number of outstanding shares of the registrant s Common Stock, $.0001 par value, as of July 25, 2013 was 79,625,966.

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**PART I: FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

**CONSOLIDATED BALANCE SHEETS**

| | (Unaudited) June 30, 2013 | December 31, 2012 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 10,337,619 | $ 10,096,414 |
| Restricted cash | 185,217 | 276,906 |
| Accounts receivable, net | 300,580 | 2,101,941 |
| Inventory | 326,265 | 418,926 |
| Other current assets | 2,483,221 | 874,115 |
| Total current assets | 13,632,902 | 13,768,302 |
| PROPERTY AND EQUIPMENT | | |
| Equipment and office fixtures | 20,156,634 | 16,781,671 |
| Building and land | 4,718,863 | 4,708,091 |
| Accumulated depreciation | (15,941,818) | (15,038,811) |
| Total property and equipment | 8,933,679 | 6,450,951 |
| NON-CURRENT ASSETS | | |
| Inventory | 5,362,999 | 5,574,841 |
| Other non-current assets | 1,269,387 | 1,102,730 |
| Total other assets | 6,632,386 | 6,677,571 |
| Total assets | $ 29,198,967 | $ 26,896,824 |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 5,319,451 | $ 1,948,555 |
| Accrued expenses and other | 2,774,944 | 14,050,840 |
| Deferred revenue | 2,835,522 | 2,835,522 |
| Derivative liabilities | 4,020,014 | 5,356,203 |
| Mortgage and loans payable | 14,667,705 | 14,809,737 |
| Total current liabilities | 29,617,636 | 39,000,857 |
| LONG-TERM LIABILITIES | | |
| Mortgage and loans payable | 555,386 | 4,010,946 |
| Deferred income from revenue participation rights | 4,643,750 | 4,643,750 |
| Total long-term liabilities | 5,199,136 | 8,654,696 |

| | | |
|---|---|---|
| Total liabilities | 34,816,772 | 47,655,553 |
| | | |
| Commitments and contingencies (Note G) | | |
| Redeemable Series G Convertible Preferred stock | | |
| STOCKHOLDERS DEFICIT | | |
| Preferred stock $.0001 par value; 9,675,200 and 9,361,200 shares authorized, respectively; none outstanding | | |
| Preferred stock series D convertible $.0001 par value; 134,800 and 448,800 shares authorized, respectively; 32,400 and 206,400 issued and outstanding, respectively | 3 | 21 |
| Common stock $.0001 par value; 150,000,000 shares authorized; 79,625,966 and 75,416,203 issued and outstanding, respectively | 7,963 | 7,542 |
| Additional paid-in capital | 180,401,952 | 144,446,574 |
| Accumulated deficit | (185,774,223) | (165,212,866) |
| | | |
| Total stockholders deficit before non-controlling interest | (5,364,305) | (20,758,729) |
| Non-controlling interest | (253,500) | |
| | | |
| Total stockholders deficit | (5,617,805) | (20,758,729) |
| | | |
| Total liabilities and stockholders deficit | $ 29,198,967 | $ 26,896,824 |

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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| REVENUE | | | | |
| Artifact sales and other | $ 227,574 | $ 133,259 | $ 1,030,646 | $ 187,407 |
| Exhibit | 20,691 | 75,000 | 80,691 | 100,000 |
| Expedition | 5,480 | 1,218,372 | 5,480 | 4,038,977 |
| Total revenue | 253,745 | 1,426,631 | 1,116,817 | 4,326,384 |
| OPERATING EXPENSES | | | | |
| Cost of sales artifacts and other | 95,084 | 89,892 | 240,785 | 124,081 |
| Marketing, general and administrative | 2,928,570 | 2,483,000 | 5,719,891 | 4,839,918 |
| Operations and research | 9,511,112 | 9,554,692 | 15,244,345 | 14,706,398 |
| Total operating expenses | 12,534,766 | 12,127,584 | 21,205,021 | 19,670,397 |
| INCOME (LOSS) FROM OPERATIONS | (12,281,021) | (10,700,953) | (20,088,204) | (15,344,013) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 56 | 698 | 2,755 | 23,138 |
| Interest expense | (918,486) | (1,679,871) | (1,989,541) | (2,665,200) |
| Change in derivative liabilities fair value | 1,998,599 | (3,212,901) | 1,336,189 | (3,089,832) |
| Other | 1,376 | 2,677 | 24,687 | 3,759 |
| Total other income (expense) | 1,081,545 | (4,889,397) | (625,910) | (5,728,135) |
| INCOME (LOSS) BEFORE INCOME TAXES | (11,199,476) | (15,590,350) | (20,714,114) | (21,072,148) |
| Income tax benefit (provision) | 50,000 | | (100,742) | |
| NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST | (11,149,476) | (15,590,350) | (20,814,856) | (21,072,148) |
| Non-controlling interest | 253,500 | | 253,500 | |
| NET INCOME (LOSS) | $ (10,895,976) | $ (15,590,350) | $ (20,561,356) | $ (21,072,148) |
| NET INCOME (LOSS) PER SHARE | | | | |
| Basic and diluted (See NOTE B) | $ (.14) | $ (.21) | $ (.26) | $ (.29) |
| Weighted average number of common shares outstanding | | | | |
| Basic and diluted | 79,345,030 | 73,234,692 | 78,350,236 | 73,199,914 |

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**

| | Six Months Ended | |
|---|---|---|
| | **June 30, 2013** | **June 30, 2012** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss before non-controlling interest | $ (20,814,856) | $ (21,072,148) |
| Adjustments to reconcile net loss to net cash (used) by operating activities: | | |
| Depreciation and amortization | 904,690 | 798,179 |
| Investment in consolidated entity | (301,093) | |
| Loan fee amortization | 121,909 | 212,006 |
| Change in derivatives liabilities fair value | (1,336,189) | 3,089,832 |
| Note payable interest accretion | 1,173,924 | 1,755,343 |
| Senior debt interest settled with common stock | 275,013 | |
| Foreign currency translation | 1,303 | |
| Share-based compensation | 1,240,773 | 918,088 |
| (Increase) decrease in: | | |
| Restricted cash | 91,689 | 94,555 |
| Accounts receivable | 1,698,691 | 251,706 |
| Inventory | 304,503 | 92,886 |
| Other assets | (1,785,426) | (3,285,464) |
| Increase (decrease) in: | | |
| Accounts payable | 3,362,535 | 4,350,738 |
| Accrued expenses and other | (11,443,547) | (332,603) |
| NET CASH (USED) BY OPERATING ACTIVITIES | (26,506,081) | (13,126,882) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (2,628,940) | (597,024) |
| NET CASH (USED) BY INVESTING ACTIVITIES | (2,628,940) | (597,024) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | 4,885,655 | 44,625 |
| Proceeds from sale of subsidiary stock | 25,000,000 | |
| Proceeds from issuance loan payable | | 9,994,483 |
| Broker commissions and fees on capital raises | | (400,000) |
| Repayment of mortgage and loans payable | (509,429) | (341,276) |
| Dividends | | (10,000) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 29,376,226 | 9,287,832 |
| NET INCREASE (DECREASE) IN CASH | 241,205 | (4,436,074) |
| CASH AT BEGINNING OF PERIOD | 10,096,414 | 7,971,794 |
| CASH AT END OF PERIOD | $ 10,337,619 | $ 3,535,720 |
| SUPPLEMENTARY INFORMATION: | | |
| Interest paid | $ 206,136 | $ 701,106 |
| Income taxes paid | $ | $ |
| NON-CASH TRANSACTIONS: | | |
| Accrued compensation paid by equity instruments | $ 165,748 | $ 347,528 |

| | | | | |
|---|---|---|---|---|
| Equipment purchased with financing | $ | 756,795 | $ | 588,499 |
| Debt repayment with common shares | $ | 4,695,652 | $ | |
| Series G Preferred Stock dividend declaration | $ | | $ | 10,000 |

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, 2012.

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, 2013, and the results of operations and cash flows for the interim periods presented. Operating results for the three-month period ended June 30, 2013, 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 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 six-months ended June 2013, our wholly owned subsidiary, Odyssey Marine Enterprises, Ltd., sold 23 million cuotas (shares) of its position in Oceanica Resources, S.R.L. for $25 million. 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**

Revenue from product 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. In accordance with Topic A.1.in SAB 13: Revenue Recognition, exhibit, contractual 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 or by applicable accounting standards. Bad debts are recorded as identified and, from time to time, a specific reserve allowance will be established when required. A return allowance is established for sales which have a right of return. Accounts receivable is stated net of any recorded allowances and reserves.

**Cash, Cash Equivalents and Restricted Cash**

Cash, cash equivalents and restricted cash 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.

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**Inventory**

Our inventory consists of artifacts recovered from the SS *Republic* shipwreck, general branded merchandise and related packaging material. Inventoried costs of recovered artifacts include the costs of recovery, conservation and administrative costs to obtain legal title to the artifacts. Administrative costs are generally legal fees or insurance settlements required in order to obtain clear title. The capitalized recovery costs include direct costs such as vessel and related equipment operations and maintenance, crew and technical labor, fuel, provisions, supplies, port fees and depreciation. Conservation costs include fees paid to conservators for cleaning and preserving the artifacts. We continually monitor the recorded aggregate costs of the artifacts in inventory to ensure these costs do not exceed the net realizable value. Historical sales, publications or available public market data are used to assess market value.

Packaging materials and merchandise are recorded at average cost. We record our 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 the ASC topic for Property, Plant and Equipment. Decisions are based on several factors, including, but not limited to, management s plans for future operations, recent operating results and projected cash flows.

**Comprehensive Income**

Securities with a maturity greater than three months from purchase date are deemed available-for-sale and carried at fair value. Unrealized gains and losses on these securities are excluded from earnings and reported as a separate component of stockholders equity. At June 30, 2013, we did not own securities with a maturity greater than three months.

**Property and Equipment and 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, which are normally between three and ten years. Leasehold improvements are amortized over their estimated useful lives or lease term, if shorter. Major overhaul items (such as engines or generators) that enhance or extend the useful life of vessel-related assets qualify to be capitalized and depreciated over the useful life or remaining life of that asset, whichever is shorter. Certain major repair items required by industry standards to ensure a vessel s seaworthiness also qualify to be capitalized and depreciated over the period of time until the next scheduled planned major maintenance for that item. All other repairs and maintenance are accounted for under the direct-expensing method and are expensed when incurred.

**Earnings Per Share**

Basic earnings per share ( EPS ) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. In periods when the Company generates income, the Company calculates basic earnings per share using the two-class method pursuant to ASC 260 *Earnings Per Share.* The two-class method was required effective with the issuance of the Senior Convertible Note disclosed in Note H because the note qualifies as a participating security, giving the holder the right to receive dividends should dividends be declared on common stock. Under the two-class method, earnings for the period are allocated on a pro-rata basis to the common stockholders and to the holders of Convertible Notes based on the weighted average number of common shares outstanding and number of shares that could be converted. The Company does not use the two-class method in periods when it generates a loss as the holder of the Convertible Notes do not participate in losses.

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. We use the treasury stock method to compute potential common shares from stock options and warrants and the if-converted method to compute potential common shares from Preferred Stock, Convertible Notes or other convertible securities. As it relates solely to the Senior Convertible Note, for diluted earnings per share, the Company uses the more dilutive of the if-converted method or two-class method. When a net loss occurs, potential common shares have an anti-dilutive effect on earnings per share and such shares are excluded from the Diluted EPS calculation.

At June 30, 2013 and 2012, weighted average common shares outstanding year-to-date were 78,350,236 and 73,199,914, respectively. For the periods ended June 30, 2013 and 2012, in which net losses occurred, all potential common shares were excluded from diluted EPS because the effect of including such shares would be anti-dilutive.

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The potential common shares in the following tables represent potential common shares calculated using the treasury stock method from outstanding options, stock awards and warrants that were excluded from the calculation of diluted EPS:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| Average market price during the period | $ 3.14 | $ 3.05 | $ 3.19 | $ 3.11 |
| In the money potential common shares from options excluded | 299,539 | 213,311 | 333,062 | 239,119 |
| In the money potential common shares from warrants excluded | 493,329 | 1,045,869 | 525,093 | 1,119,803 |

Potential common shares from out-of-the-money options and warrants were also excluded from the computation of diluted EPS because calculation of the associated potential common shares has an anti-dilutive effect on EPS. The following table lists options and warrants that were excluded from diluted EPS:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| Out of the money options and warrants excluded: | | | | |
| Stock options with an exercise price of $3.40 per share | 100,000 | 100,000 | 100,000 | 100,000 |
| Stock options with an exercise price of $3.43 per share | 40,000 | | 40,000 | |
| Stock options with an exercise price of $3.50 per share | 345,000 | 245,000 | 345,000 | 245,000 |
| Stock options with an exercise price of $3.51 per share | 959,500 | 984,670 | 959,500 | 984,670 |
| Stock options with an exercise price of $3.53 per share | 191,700 | 211,900 | 191,700 | 211,900 |
| Stock options with an exercise price of $3.90 per share | 20,000 | | 20,000 | |
| Stock options with an exercise price of $4.00 per share | 52,500 | 52,500 | 52,500 | 52,500 |
| Stock options with an exercise price of $5.00 per share | 100,000 | 300,000 | 100,000 | 300,000 |
| Stock options with an exercise price of $7.00 per share | 100,000 | 100,000 | 100,000 | 100,000 |
| Warrants with an exercise price of $3.60 per share | 1,562,500 | 1,562,500 | 1,562,500 | 1,562,500 |
| Warrants with an exercise price of $5.25 per share | | 100,000 | | 100,000 |
| Total anti-dilutive warrants and options excluded from EPS | 3,471,200 | 3,656,570 | 3,471,200 | 3,656,570 |

Potential common shares from outstanding Convertible Preferred Stock calculated on an if-converted basis having an anti-dilutive effect on diluted earnings per share were excluded from potential common shares as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| Potential common shares from Convertible Preferred Stock excluded from EPS | 32,400 | 346,400 | 32,400 | 346,400 |

The weighted average equivalent common shares relating to our unvested restricted stock awards that were excluded from potential common shares in the earning per share calculation due to having an anti-dilutive effect are:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |

| | | | | |
|---|---|---|---|---|
| Potential common shares from unvested restricted stock awards excluded from EPS | 512,928 | 467,164 | 509,236 | 463,234 |

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The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income per share:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| Net income (loss) | $ (10,895,976) | $ (15,590,350) | $ (20,561,356) | $ (21,072,148) |
| Cumulative dividends on Series G Preferred Stock | | (5,000) | | (15,000) |
| Numerator, basic and diluted net income (loss) available to stockholders | $ (10,895,976) | $ (15,595,350) | $ (20,561,356) | $ (21,087,148) |
| Denominator: | | | | |
| Shares used in computation basic: | | | | |
| Weighted average common shares outstanding | 79,345,030 | 73,234,692 | 78,350,236 | 73,199,914 |
| Shares used in computation diluted: | | | | |
| Weighted average common shares outstanding | 79,345,030 | 73,234,692 | 78,350,236 | 73,199,914 |
| Dilutive effect of potential common shares outstanding | | | | |
| Shares used in computing diluted net income per share | 79,345,030 | 73,234,692 | 78,350,236 | 73,199,914 |
| Net income (loss) per share basic | $ (0.14) | $ (0.21) | $ (0.26) | $ (0.29) |
| Net income (loss) per share diluted | $ (0.14) | $ (0.21) | $ (0.26) | $ (0.29) |

**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.

**Stock-based Compensation**

Our stock-based compensation is recorded in accordance with the guidance in the ASC topic for Stock-Based Compensation (See NOTE I).

**Fair Value of Financial Instruments**

Financial instruments consist of cash, evidence of ownership in an entity, and contracts that both (i) impose on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (ii) conveys to that second entity a contractual right (a) to receive cash or another financial instrument from the first entity, or (b) to exchange other financial instruments on potentially favorable terms with the first entity. Accordingly, our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, derivative financial instruments, mortgage and loans payable, and redeemable preferred stock. We carry cash and cash equivalents, accounts payable and accrued liabilities, and mortgage and loans payable at the approximate fair market value, and, accordingly, these estimates are not necessarily indicative of the amounts that we could realize in a current market exchange. We carry derivative financial instruments at fair value as is required under current accounting standards. We carry redeemable preferred stock at historical cost and accrete carrying values to estimated redemption values over the term of the financial instrument.

Derivative financial instruments consist of financial instruments or other contracts that contain a notional amount and one or more underlying variables (e.g., interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets (See NOTE L for additional information). We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts, such as our sale and issuance of redeemable preferred stock and freestanding warrants during October 2010 with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by ASC 815 *Derivatives and Hedging*, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements with changes in fair value reflected in our income.

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*Fair Value Hierarchy*

The three levels of inputs that may be used to measure fair value are as follows:

*Level 1.* Quoted prices in active markets for identical assets or liabilities.

*Level 2.* Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

*Level 3.* Unobservable inputs to the valuation methodology are significant to the measurement of the fair value of assets or liabilities. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that we were unable to corroborate with observable market data.

**Redeemable Preferred Stock**

Redeemable preferred stock (and, if ever, any other redeemable financial instrument we may enter into) is initially evaluated for possible classification as a liability in instances where redemption is certain to occur pursuant to ASC 480 *Distinguishing Liabilities from Equity*. Redeemable preferred stock classified as a liability is recorded and carried at fair value. Redeemable preferred stock that does not, in its entirety, require liability classification is evaluated for embedded features that may require bifurcation and separate classification as derivative liabilities. In all instances, the classification of the redeemable preferred stock host contract that does not require liability classification is evaluated for equity classification or mezzanine classification based upon the nature of the redemption features. Generally, mandatory redemption requirements or any feature that could require cash redemption for matters not within our control, irrespective of probability of the event occurring, requires classification outside of stockholders equity. Redeemable preferred stock that is recorded in the mezzanine section is accreted to its redemption value through charges to stockholders equity when redemption is probable using the effective interest method. See NOTE N for further disclosures about our redeemable preferred stock.

**Subsequent Events**

We have evaluated subsequent events for recognition or disclosure through the date this Form 10-Q is filed with the Securities and Exchange Commission.

**NOTE C RESTRICTED CASH**

As required by the original mortgage loan entered into with Fifth Third Bank (the Bank ) on July 11, 2008 (see NOTE H), $500,000 was deposited into an additional interest-bearing account from which principal and interest payments are made. On each anniversary of the mortgage, we are to deposit into the account an amount sufficient to ensure a balance of $500,000 for principal and interest payments for the subsequent year of the mortgage. This mortgage loan matures during July 2013, at which point in time it was refinanced. The balance in this restricted cash account is held as additional collateral by the Bank and is not available for operations. Any funds remaining in this account at the end of the new mortgage term will be returned to the Company. The balance in this account at June 30, 2013, was $185,217. Subsequent to June 30, 2013, we renewed the mortgage with the Bank which modified the terms of the restricted cash account to require us to replenish the account up to $400,000 each year.

**NOTE D INVENTORY**

Our inventory consisted of the following:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Artifacts | $ 5,557,025 | $ 5,743,915 |
| Packaging | 105,965 | 131,641 |

| | | |
|---|---|---|
| Merchandise | 397,606 | 485,769 |
| Merchandise reserve | (371,332) | (367,558) |
| Total inventory | $ 5,689,264 | $ 5,993,767 |

Of these amounts, $5,362,999 and $5,574,841 are classified as non-current as of June 30, 2013 and December 31, 2012, respectively.

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**NOTE E INVESTMENTS IN UNCONSOLIDATED ENTITIES**

***Neptune Minerals, Inc.***

During the quarter ended December 31, 2009, we invested $500,000 for a 25% interest (five membership units) in SMM Project, LLC ( SMM ) to pursue opportunities in the exploration of deep-ocean gold and copper deposits. SMM purchased a majority interest in Bluewater Metals Pty, Ltd. ( Bluewater ), an Australian company with licenses for mineral exploration of approximately 150,000 square kilometers of ocean floor in territorial waters controlled by four different countries in the South Pacific. In April 2010, SMM was acquired by Dorado Ocean Resources, Ltd. ( DOR ) through a share exchange. At that time, DOR also acquired the remaining interest in Bluewater. We were issued 450 DOR shares in exchange for our surrendered units in SMM. We also acquired an additional 1,200 shares of DOR valued at $2,000,000 that resulted in a 41.25% ownership of DOR. Under the terms of the Share Subscription Agreement, we had the option to pay for this investment in cash, provide marine services to DOR over a three-year period commencing April 2010 or exercise our contractual right to offset against the $2,000,000 marine services accounts receivable owed to us. During 2011, we exercised our contractual right and offset these two amounts. The focus of DOR was on the exploration and monetization of gold- and copper-rich Seafloor Massive Sulfide ( SMS ) deposits.

During 2011, we were engaged by Neptune Minerals, Inc. ( NMI ) and its affiliates to perform marine services relating to deep-sea mining. The agreements provided for payments in cash and shares of Class B non-voting common stock of NMI. In 2011, we earned 2,066,600 shares of the Class B non-voting common stock from these engagements. During this same period, NMI completed a share exchange with DOR shareholders whereby each one outstanding share of DOR was exchanged for 1,000 shares of NMI Class B non-voting common stock. We received 1,650,000 shares of NMI Class B non-voting common stock for our 1,650 DOR shares pursuant to the share exchange. In connection with this share exchange, NMI executed an assignment and assumption agreement, whereby NMI assumed $8,227,675 of the outstanding debt DOR owed to us. Additionally in 2011, we executed a debt conversion agreement with NMI, whereby we converted $2,500,000 of the debt owed to us for 2,500,000 shares of NMI Class B non-voting common stock. At June 30, 2013, we have a net share position in NMI of 6,216,600 shares, which represents an approximate 30% ownership before any further dilution of the NMI stock.

At June 30, 2013, our share of unrecognized DOR (NMI) losses is $7.2 million. We have not recognized the accumulated $7.2 million in our income statement because these losses exceed our investment in DOR (NMI). Based on the NMI and DOR transaction described above, we believe it is appropriate to allocate this loss carryforward to any incremental investment that may be recognized on our balance sheet in NMI. The aforementioned loss carryforward is based on NMI s last audited financial statements as of June 30, 2012 and is the best financial information available to us currently. With NMI being involved in the capital intensive deep-sea mining and exploration industry as well as not having revenue, we believe their cumulative loss for their fiscal year end June 30, 2013 will be several million dollars.

***Chatham Rock Phosphate, Ltd.***

During the period ended June 30, 2012, we performed deep-sea mining exploratory services for Chatham Rock Phosphate, Ltd. ( CRP ) valued at $1,680,000. As payment for these services, CRP issued 9,320,348 of ordinary shares to us. The shares currently represent a 6.9% equity stake in CRP. With CRP being on the New Zealand Stock Exchange and guidance per ASC 320: *Debt and Equity Securities* regarding readily determinable fair value, we believe it was appropriate to not recognize this amount as an asset nor as revenue during that period.

**NOTE F INCOME TAXES**

As of June 30, 2013, the Company had consolidated income tax net operating loss ( NOL ) carryforwards for federal tax purposes of approximately $129 million. The federal NOL carryforwards from 1998 forward will expire in various years beginning in 2018 and ending through the year 2032. From 2018 through 2022, approximately $3.2 million of the NOL will expire, from 2023 through 2027, approximately $59.9 million of the NOL will expire, and from 2028 through 2032, approximately $65.9 million of the NOL will expire.

As of June 30, 2013 we utilized $4.3 million of the federal NOL carryforwards for taxable income resulting from our sale of partial ownership interest in a subsidiary. For Alternative Minimum Tax (AMT) purposes, a limitation is imposed on the allowable amount of the NOL carryforward, this limitation resulted in a current federal tax expense. The AMT rate applied is 20%.

The components of the provision for income tax (benefits) are attributable to continuing operations as follows:

| | June 30, 2013 | June 30, 2012 | June 30, 2011 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Current | | | |
| Federal | $ 85,742 | $ | $ |
| State | 15,000 | | |
| | $ 100,742 | $ | $ |
| Deferred | | | |
| Federal | $ | $ | $ |
| State | | | |
| | $ 100,742 | $ | $ |

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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 tax credit carryforwards | $ 45,685,747 |
| Capital loss carryforward | 395,844 |
| Accrued expenses | 111,181 |
| Deferred revenue | 1,020,246 |
| Reserve for accounts receivable | 2,146,685 |
| Reserve for inventory | 133,608 |
| Start-up costs | 110,118 |
| Excess of book over tax depreciation | 1,359,211 |
| Stock option and restricted stock award expense | 1,659,421 |
| Investment in unconsolidated entity | 3,800,697 |
| Less: valuation allowance | (55,726,704) |
| | $ 696,054 |
| Deferred tax liability: | |
| Property and equipment basis | $ 71,229 |
| Prepaid expenses | 624,825 |
| | $ 696,054 |
| Net deferred tax asset | $ |

As reflected above, we have recorded a net deferred tax asset of $0 at June 30, 2013. As required by the Accounting for Income Taxes topic in the ASC, we have evaluated whether it is more likely than not that the deferred tax assets will be realized. Based on the available evidence, we have concluded that it is more likely than not that those assets would not be realized without the recovery and rights of ownership or salvage rights of high-value shipwrecks or other forms of taxable income, thus a valuation allowance has been recorded as of June 30, 2013.

The decrease in the valuation allowance as of June 30, 2013 is due to the utilization of $4.3 million of our net operating loss carryforward.

The change in the valuation allowance is as follows:

| | |
|---|---|
| June 30, 2013 | $ 55,726,704 |
| December 31, 2012 | 57,901,529 |
| Change in valuation allowance | $ (2,174,824) |

Income taxes for the six-month periods ended June 30, 2013 and 2012 differ from the amounts computed by applying the effective federal income tax rate of 34.0% to income (loss) before income taxes as a result of the following:

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Expected (benefit) | $ (6,956,609) | $ (7,164,530) |
| U.S. income tax expense at the AMT 20% rate | 100,742 | |

| | | |
|---|---|---|
| State income taxes net of federal benefits | 97,489 | (191,873) |
| Nondeductible expense | 12,895 | 8,050 |
| Stock options and restricted stock awards | 208,890 | 240,265 |
| Gain on sale of subsidiary stock | 8,454,148 | |
| Derivatives | (13,721) | 1,667,465 |
| Change in valuation allowance | (2,174,824) | 5,203,811 |
| Effects of: | | |
| Change in apportionment estimate | 400,067 | |
| Change in net operating loss estimate | 2,240 | 610,863 |
| Change in capital loss carryover estimate | | (374,051) |
| Other, net | (30,575) | |
| | $ 100,742 | $ |

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During the six-month periods ended June 30, 2013 and 2012, the Company recognized certain tax benefits and (liabilities), prior to any valuation allowances, related to stock option plans in the amounts of $221,060 and $248,038, respectively. If we did not have a full valuation allowance, such benefits would be recorded as an increase to the deferred tax asset and increase in additional paid in capital.

We have not recognized a material adjustment in the liability for unrecognized tax benefits and have not recorded any provisions for accrued interest and penalties related to uncertain tax positions.

The earliest tax year still subject to examination by a major taxing jurisdiction is 2009.

**NOTE G COMMITMENTS AND CONTINGENCIES**

**Legal Proceedings**

On April 16, 2012, the Kingdom of Spain filed a motion with the district court for an award of attorney s fees and costs related to the *Black Swan* case. On November 15, 2012, the Magistrate Judge recommended to the District Judge that Spain recover fees and costs related only to the period from February 10, 2012 through March 20, 2012 which amounts to approximately $130,000. We are opposing the motion vigorously and have submitted substantial arguments in opposition. However, we cannot predict the court s ruling at this time.

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

**Trends and Uncertainties**

Our current 2013 business plan estimates positive cash flow from operating and financing activities. The plan contains assumptions which include that several of our planned projects are funded through project recoveries (Gairsoppa) and other financings, syndications or other partnership opportunities. The 2013 business plan expenses include a 90-day charter agreement which we executed with a company to provide a ship and equipment to conduct recovery operations on the *Gairsoppa* and *Mantola* projects similar to the work performed in 2012 when we monetized over $41 million of silver. Based upon our current expectations, we believe our cash position will be sufficient to fund operating cash flows throughout the rest of 2013 taking into account our beginning cash balance, current cash flow expectations and revenues from multiple sources, including projected sales from recoveries, syndicated projects and other potential financing opportunities. We renewed our term and mortgage loans with Fifth Third Bank in July 2013. We also borrowed $10 million in July 2013 from Fifth Third Bank which was secured by Gairsoppa project proceeds based upon the recent recovery. We have experienced several years of net losses resulting in a stockholders deficit. Our capacity to generate net income in future periods is dependent upon our success in recovering and monetizing shipwrecks, realizing capital gains from sale of interest in mineral exploration entities, generating income from shipwreck or mineral exploration charters or generating income from other projects. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to raise additional capital or curtail expenses. While we have been successful in raising the necessary funds in the past, there can be no assurance that we can continue to do so.

**NOTE H MORTGAGE AND LOANS PAYABLE**

The Company s consolidated debt consisted of the following at June 30, 2013 and December 31, 2012:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Term loan | $ 5,000,000 | $ 5,000,000 |
| Face value $10,000,000, 8% Convertible Senior Note Payable | 4,496,280 | 8,234,367 |
| Face value $8,000,000, 9% Convertible Senior Note Payable | 3,845,137 | 3,628,779 |
| Mortgage payable | 1,881,674 | 1,957,537 |
| | $ 15,223,091 | $ 18,820,683 |

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**Term Loan**

On May 4, 2011, we amended our revolving credit facility with Fifth Third Bank (the Bank ) to replace it with a $5 million term loan with a maturity date of April 23, 2012. A principal payment of $2 million was due and paid prior to August 1, 2011, with the remainder due by maturity. This facility bore a floating interest at the one-month LIBOR rate according to the Wall Street Journal plus 500 basis points. Any prepayments made in full or in part are without premium or penalty. A commitment fee of $250,000 was paid at closing. Restricted cash amounts are not required to be kept on deposit. As a condition to the loan renewal, we were required to amend the Loan Agreement (mortgage payable) for our corporate real estate facility, which is due to mature on July 11, 2013, whereby we were required to pay additional principal to meet an 80% loan-to-value (LTV) based upon an independent real estate appraisal. All additional principal payments have been made.

On March 30, 2012, the above term loan was amended and increased to $5 million with an expiration date of July 11, 2013. This facility bears floating interest at the one month LIBOR rate according to the Wall Street Journal plus 500 basis points. Any prepayments made in full or in part are without premium or penalty. No restricted cash payments will need to be kept on deposit. During July 2013 this term loan was amended with substantially the same terms that currently exist. The new maturity date is July 2016. Beginning January 2014, we will be required to make semi-annual payments of $500,000.

The current amended term loan is secured by approximately 25,000 numismatic coins recovered from the SS *Republic* shipwreck, which amount will be reduced over the term by the amount of coins sold by the Company. The coins used as collateral are held by a custodian for the security of the Bank. The borrowing base is equal to forty percent (40%) of the eligible coin inventory valued on a rolling twelve-month wholesale average value. The Company is required to comply with a number of customary covenants. The significant covenants included: maintaining insurance on the inventory; ensuring the collateral is free from encumbrances and without the consent of the Bank, the Company cannot merge or consolidate with or into any other corporation or entity nor can the Company enter into a material debt agreement with a third party without approval.

**Mortgage Payable**

On July 11, 2008, we entered into a mortgage loan with Fifth Third Bank. Pursuant to the Loan Agreement, we borrowed $2,580,000. The loan bears interest at a variable rate equal to the prime rate plus three-fourths of one percent (0.75%) per annum. The loan matures on July 11, 2013, and requires monthly principal payments in the amount of $10,750 plus accrued interest. This loan is secured by a restricted cash balance (See NOTE C) as well as a first mortgage on our corporate office building. This loan contains customary representations and warranties, affirmative and negative covenants, conditions, and other provisions. As of June 30, 2013, the loan balance outstanding was $1,302,000. During July 2013 this mortgage loan was amended with substantially the same terms that currently exist. The new maturity date is July 2016.

During May 2008, we entered into a mortgage loan in the principal amount of $679,000 with The Bank of Tampa to purchase our conservation lab and storage facility. This obligation has a monthly payment of $5,080 with a maturity date of May 14, 2015. Principal and interest payments are payable monthly. Interest is at a fixed annual rate of 6.45%. This debt is secured by the related mortgaged real property. As of June 30, 2013, the loan balance outstanding was $579,672. The seller originally carried a second mortgage for $100,000 with interest due monthly and $25,000 of principal due each May commencing in May 2009. As of June 30, 2012, this debt was paid in full. The interest was at a variable rate of 1.0% above the prime interest rate stated by BB&T, formerly Colonial Bank of Tampa.

**Senior Convertible Notes**

***Initial Note***

During November 2011, we entered into a securities purchase agreement (the Purchase Agreement ) with one institutional investor pursuant to which we issued and sold a Senior Convertible Note in the original principal amount of $10.0 million (the Initial Note ) and a warrant (the Warrant ) to purchase up to 1,302,083 shares of our common stock. Subject to the satisfaction of conditions set forth in the Purchase Agreement, we had the right to require the investor to purchase an additional senior convertible note in the original principal amount of up to $5.0 million on the six-month anniversary of the initial closing date (the Additional Note and, collectively Notes ). Aggregate direct finance costs amounted to $545,000 of which $45,000 related to costs of the lender and, accordingly, were included in the original issue discount on the Initial Note.

The indebtedness evidenced by the Initial Note bears interest at 8.0% percent per year (15% under default conditions, if ever). Interest is compounded monthly and payable quarterly at the beginning of each calendar quarter. The Initial Note is amortized with equal monthly principal installments of $434,783 that commenced on July 8, 2012. Prepayment is not allowed. Further, the Notes may be converted into our common stock, at the option of the holder, at any time following issuance, with respect to the Initial Note, or at any time following six months after the date of issuance, with respect to the Additional Note. The initial conversion price of the Initial Note was $3.74, subject to adjustment on the six-month anniversary of the initial closing date as follows: The reset conversion price applicable to the Initial Note was to be adjusted to the lesser of (a) the then current conversion price and (b) the greater of (i) $1.44 and (ii) 110.0% of the market price of our common stock on the six-month anniversary of the initial closing date (as applicable, the Conversion Price ). On May 10, 2012 (the six-month anniversary of the initial closing date), the conversion price applicable to the Initial Note was adjusted to $3.17, which represented 110.0% of the market price of Odyssey s common stock. The conversion price is also subject to adjustment for stock splits, stock dividends, recapitalizations, and similar transactions. We have agreed to pay each amortization payment in shares of our common stock, if certain conditions are met; provided, that we may, at our option, elect to pay such amortization payments in cash. The conversion rate applicable to any amortization payment that we make in shares of our common stock will be the lower of (a) the Conversion Price and (b) a price equal to 85.0% of the volume-weighted average price of our shares of common stock for a ten-day period immediately prior to the applicable amortization date.

The Initial Note provides for redemption upon the occurrence of an event of default. Default conditions include non-servicing of the debt and certain other credit risk related conditions. Default conditions also include certain equity indexed events including failures to file public information documents, non-conversion or insufficient share authorizations to effect conversion and failure to obtain and maintain an effective registration statement covering the underlying common shares. The remedies to the investor for events of default include acceleration of payment at 125% of the remaining face value in certain circumstances. In the event the default redemption is not paid, the investor would have the right to elect conversion of the note at an adjusted conversion price approximating 75% of quoted market prices. A change in control would also result in a redemption requirement at 125% of the face value.

The Notes extend no voting rights to the investors. However, the Notes extend participation rights in dividend payments, if any, made to the holders of the Company s common or other class of stock, except our Series G Preferred Stock.

The holder of the Initial Note elected to apply some of the payments due on the principal balance of the Initial Note to the Additional Note described below. During the six months ended June 30, 2013, we issued 1,731,779 shares of common stock as payment of $4,695,652 in outstanding principal. The principal balance of the Initial Note at June 30, 2013 was $5,387,032.

Under the terms of the Warrant, the holder is entitled to exercise the Warrant to purchase up to 1,302,083 shares of our common stock at an initial exercise price of $4.32 per share, during the five-year period beginning on the six-month anniversary of the initial closing date; provided, that 434,027 shares of our common stock issuable upon exercise of the Warrant could not be exercised unless the investor purchased the Additional Note. In accordance with the terms of the warrant agreement, on May 10, 2012, the exercise price applicable to the Warrant was adjusted to $3.60 which was the lesser of (a) the then current exercise price and (b) 125.0% of the market price of our common stock on the six-month anniversary of the initial closing date. The Exercise Price is also subject to adjustment for stock splits, stock dividends, recapitalizations, and similar transactions. We are generally prohibited from issuing shares of common stock upon exercise of the Warrant if such exercise would cause us to breach our obligations under the rules or regulations of the stock market on which the common stock is traded.

In connection with the financing, we entered into a registration rights agreement pursuant to which we agreed to file a registration statement with the Securities and Exchange Commission (with the SEC ) relating to the offer and sale by the investor of the shares of common stock issuable upon conversion of the Notes and the exercise of the Warrant. Pursuant to the agreement, we were required to file the registration statement within six months of the initial closing date and to use best efforts for the registration statement to be declared effective 90 days thereafter (or 120 days thereafter if the registration statement is subject to review by the SEC).

***Additional Note***

On May 10, 2012, we issued the Additional Note in the original principal amount of $8.0 million, and the number of shares of Odyssey s common stock issuable upon exercise of the Warrant increased to 1,562,500. The Additional Note bears interest at 9.0% per year and will mature on the 30-month anniversary of the initial closing date. The Additional Note amortizes in equal monthly installments commencing on the eighth-month anniversary of the initial note and may be paid in cash or Odyssey common stock. The Additional Note may be converted into Odyssey s common stock, at the option of the holder, at any time following six months after the date of issuance. Odyssey has a right to redeem the Additional Note. The initial conversion price of the Additional Note is $3.74, subject to reset on the earlier of the date the registration statement registering the offer and sale of the common stock issuable under the notes and the warrants becomes effective and a prospectus contained therein shall be available for the resale by the holder of all of the registrable securities or the six-month anniversary of the additional closing date. The registration statement was declared effective on July 6, 2012, and there was no reset to the conversion price of the Additional Note.

On January 2, 2013, we entered into an agreement to amend the terms of the Additional Note. The installment payments due December 1, 2012, January 1, 2013 and February 1, 2013 were deferred until March 1, 2013 and the conversion price on the Additional Note was decreased from $3.74 to $3.17. We evaluated the amendment s impact on the accounting for the Additional Note in accordance with ASC 470-50-40-6 through 12 to determine whether extinguishment accounting was appropriate. The modification had a cash flow effect on a present value basis of less than 10% and the reduction in the conversion price resulted in

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a change in the fair value of the embedded conversion option that was less than 10% of the carrying value of the Additional Note immediately prior to the modification. Since the amendment did not result in a substantial modification, extinguishment accounting was not applicable. The principal balance of the Additional Note at June 30, 2013 was $4,149,195.

***Accounting Considerations***

We have accounted for the Initial Note, Additional Note and Warrant issued for cash as a financing transaction, wherein the net proceeds that we received were allocated to the financial instruments issued. Prior to making the accounting allocation, we evaluated the Initial Note, Additional Note and the Warrant for proper classification under ASC 480 *Distinguishing Liabilities from Equity* ( ASC 480 ) and ASC 815 *Derivatives and Hedging* ( ASC 815 ).

ASC 815 generally requires the analysis of embedded terms and features that have characteristics of derivatives to be evaluated for bifurcation and separate accounting in instances where their economic risks and characteristics are not clearly and closely related to the risks of the host contract. The material embedded derivative features consisted of the conversion option and related conversion reset price protection, the Company s redemption privilege, and certain redemption rights that were indexed to equity risks. The conversion option and conversion reset price protection, along with the redemption features bearing risks of equity, were not clearly and closely related to the host debt agreement and required bifurcation. Current accounting principles that are also provided in ASC 815 do not permit an issuer to account separately for individual derivative terms and features that require bifurcation and liability classification. Rather, such terms and features must be and were bundled together and fair valued as a single, compound embedded derivative.

The Warrant has a term of five and one-half years and at inception, had an initial exercise price of $4.32. The contractual exercise price is subject to adjustment for traditional recapitalization events and was reset on the sixth month anniversary of issuance to $3.60 per share. Although the warrant did not fall within the scope of ASC 480, the warrant required derivative liability accounting because the conversion price reset protection terms are not consistent with the definition for financial instruments indexed to a company s own stock

Based on the previous conclusions, we allocated the cash proceeds first to the derivative components at their fair values (see NOTE L) with the residual allocated to the host debt contract, as follows:

| | Allocation |
|---|---|
| Initial Note | $ 4,910,862 |
| Compound embedded derivative | 2,989,537 |
| Derivative warrants | 2,054,601 |
| | $ 9,955,000 |

The basis that was subject to allocation included the gross proceeds of $10,000,000, less costs of the investor paid out of proceeds that amounted to $45,000. We also allocated the direct financing costs of $500,000 to the note payable and the derivative components based upon the relative fair values of these financial instruments. As a result of this allocation, $246,653 was recorded in deferred costs and $253,347 was recorded as expense.

Allocation of the cash proceeds related to the Additional Financing was as follows:

| | Allocation |
|---|---|
| Additional Note | $ 6,339,642 |
| Compound embedded derivative | 1,291,298 |
| Derivative warrants | 363,542 |
| | $ 7,994,482 |

The basis that was subject to allocation included the gross proceeds of $8,000,000, less costs of the investor paid out of proceeds that amounted to $5,518. We also allocated the direct financing costs of $400,000 to the note payable and the derivative components based upon the relative fair values of these financial instruments. As a result of this allocation, $317,201 was recorded in deferred costs and $82,799 was recorded as expense.

The financing basis allocated to the notes payable and the deferred asset arising from direct finance costs are subject to amortization with periodic charges to interest expense using the effective interest method. Amortization of these components included in interest expense during the three and six months ended June 30, 2013 amounted to $606,500 and $1,295,833, respectively. The derivative components are subject to re-measurement to fair value at the end of each reporting period with the change reflected in income. See Note M for information about our derivatives.

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**NOTE I STOCKHOLDERS DEFICIT**

**Common Stock**

To date in 2013, we issued 1,844,615 shares of common stock, valued at $4,970,665, representing payment for principal and interest on our Initial Note and Additional Note as described in NOTE H.

During the three-month period ended March 31, 2013 we issued 2,010,500 shares of common stock to accredited investors upon exercise of their outstanding warrants.

During 2012, we issued 1,441,013 shares of common stock, valued at $4,262,527, representing payment for principal and interest on our Initial Note and Additional Note as described in Note H.

During the three-month period ended September 30, 2012, we issued 287,500 shares of common stock to four accredited investors upon exercise of 287,500 outstanding warrants. We also issued 140,000 shares of common stock for the conversion of 1 share of Series G Convertible Preferred Stock and 8,900 shares of common stock upon the exercise of stock options from the employee stock incentive plan.

**Stock-Based Compensation**

We have two stock incentive plans, the 1997 Stock Incentive Plan and the 2005 Stock Incentive Plan ( Plan ). The 1997 Stock Incentive Plan expired on August 17, 2007. As of that date, options cannot be granted from that plan, but any granted and unexercised options will continue to exist until exercised or expired. The Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units and stock appreciation rights. We initially reserved 2,500,000 of our authorized but unissued shares of common stock for issuance under the Plan, and, at the time the Plan was adopted, not more than 500,000 of these shares could be used for restricted stock awards and restricted stock units. On January 16, 2008, the Board of Directors approved amendments to the Plan to add 2,500,000 shares of common stock to the Plan, to allow any number of shares to be used for restricted stock awards, to clarify certain other provisions in the Plan and to submit the amended Plan for stockholder approval. The amendments to the Plan were approved at the annual meeting of stockholders on May 7, 2008. On June 3, 2010, the stockholders approved the addition of 3,000,000 shares to the Plan. Any incentive option and non-qualified option granted under the Plan must provide for an exercise price of not less than the fair market value of the underlying shares on the date of grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our outstanding common stock must not be less than 110% of fair market value on the date of the grant.

Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. As share-based compensation expense recognized in the statement of operations is based on awards ultimately expected to vest, it can be reduced for estimated forfeitures. The ASC topic Stock Compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The share based compensation charged against income for the three-month periods ended June 31, 2013 and 2012 was $552,193 and $529,669, respectively and for the six-month periods ended June 30, 2013 and 2012 was $1,240,773 and $918,088, respectively.

The weighted average estimated fair value of stock options granted during the three-month periods ended June 30, 2012 was $1.48. We did not issue stock options in the three-month period ended June 30, 2013. The weighted average fair value of stock options granted is 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 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 or variations from these assumptions can materially affect the fair value of the options.

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Risk-free interest rate | | .39% |
| Expected volatility of common stock | | 65.34% |
| Dividend yield | | 0% |
| Expected life of options | | 3.0 years |

**NOTE J DEFERRED REVENUE**

Since 2009, we entered into several marine search services contracts associated with the Robert Frasier Marine, Ltd. projects. For each contract, revenue is recognized over the contractual period when services are performed as defined by the contract. The period of time a search project remains active varies but usually extends over several months and may be accelerated or extended depending upon operational factors. At December 31, 2012 as well as at June 30, 2013, we have a $2,835,522 service obligation on two service contracts that will be recognized as revenue over the period of time the contractual services are provided.

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**NOTE K CONCENTRATION OF CREDIT RISK**

We maintain our cash at one financial institution. The Federal Deposit Insurance Corporation s standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category. The Bahamian Deposit Insurance Corporation insures funds up to $50,000 per depositor. At June 30, 2013, our consolidated uninsured cash balance was approximately $10.7 million.

Our term loans bear a variable interest rate based on LIBOR and our primary mortgage bears interest at a variable rate based on the prime rate. See NOTE H for further detail on these instruments. These instruments expose us to interest rate risk. On our primary mortgage, for an increase of every 100 basis points, our interest obligation increases by approximately $1,100 per month until maturity in July 2013. An increase of 100 basis points to the interest rate on our term loans increases our interest obligation, at most, by approximately $4,200 per month. The term loan has been amended and extended to July 2016. See NOTE H. If an increase to the rates on these instruments occurs, it will have an adverse effect on our operating cash flows and financial condition but we believe it would not be material.

**NOTE L DERIVATIVE FINANCIAL INSTRUMENTS**

The following tables summarize the components of our derivative liabilities and linked common shares as of June 30, 2013 and December 31, 2012 and the amounts that were reflected in our income related to our derivatives for the six-month periods ended June 30, 2013 and 2012:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Derivative liabilities: | | |
| Embedded derivatives derived from: | | |
| Senior Convertible Notes | $ 853,964 | $ 1,529,583 |
| | | |
| Warrant derivatives | | |
| Senior Convertible Notes | 1,638,750 | 1,921,094 |
| Series G Convertible Preferred Stock | 1,527,300 | 1,905,526 |
| | | |
| | 3,166,050 | 3,826,620 |
| | | |
| Total derivative liabilities | $ 4,020,014 | $ 5,356,203 |

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Common shares linked to derivative liabilities: | | |
| Embedded derivatives: | | |
| Senior Convertible Notes | 2,970,359 | 4,247,343 |
| | | |
| Warrant derivatives | | |
| Senior Convertible Notes | 1,562,500 | 1,562,500 |
| Series G Convertible Preferred Stock | 2,250,000 | 2,250,000 |
| | | |
| | 3,812,500 | 3,812,500 |
| | | |
| Total common shares linked to derivative liabilities | 6,782,859 | 8,059,843 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Derivative income (expense): | | | | |

| | | | | |
|---|---|---|---|---|
| Unrealized gains (losses) from fair value changes: | | | | |
| Senior Convertible Notes | $ 682,831 | $ (1,611,725) | $ 42,269 | $ (1,099,828) |
| Series G Convertible Preferred Stock | | (88,697) | | (127,624) |
| Warrant derivatives | 1,120,306 | (1,512,479) | 660,569 | (1,862,380) |
| | 1,803,137 | (3,212,901) | 702,838 | (3,089,832) |
| Redemptions of Senior Convertible Notes | 195,462 | | 633,351 | |
| Total derivative income (expense) | $ 1,998,599 | $ (3,212,901) | $ 1,336,189 | $ (3,089,832) |

In October 2010, we completed a public offering of shares of Series G Preferred Stock and warrants to purchase common stock. In April 2011, we entered into separate agreements with two holders of the Series G Preferred Stock whereby we agreed to issue warrants to purchase additional shares of common stock to the holders in consideration of the two holders agreeing to extend by six months the dates upon which the conversion option and the redemption option with respect to the shares of Series G Preferred Stock held by them became exercisable and the date upon which the redemption price of the shares of Series G Preferred Stock held by them began to increase by 1% per month. These transactions gave rise to derivative financial

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instruments. The Series G Convertible Preferred Stock embodied certain terms and features that both possessed all of the conditions of derivative financial instruments and were not clearly and closely related to the host preferred contract in terms of economic risks and characteristics. These terms and features consist of the embedded conversion option and the related down-round anti-dilution protection provision, the Company s redemption privilege and the holder s redemption privilege. Each of the redemption features also embodies the redemption premium payments. The warrants issued in connection with these transactions included down-round anti-dilution protection and, accordingly, were not afforded equity classification.

In November 2011 and May 2012, we issued and sold Senior Convertible Notes that included certain terms and conditions that were not clearly and closely related to the host debt agreement in terms of economic risks and characteristics. These terms and features consist of the embedded conversion options, certain redemption features and a conversion price reset feature. Warrants issued in connection with these transactions included reset price protection and, accordingly, were not afforded equity classification.

Current accounting principles that are provided in ASC 815 - *Derivatives and Hedging* require derivative financial instruments to be classified in liabilities and carried at fair value with changes recorded in income. In addition, the standards do not permit an issuer to account separately for individual derivative terms and features embedded in hybrid financial instruments that require bifurcation and liability classification as derivative financial instruments. Rather, such terms and features must be bundled together and fair valued as a single, compound embedded derivative. We have selected the Monte Carlo Simulations valuation technique to fair value the compound embedded derivative because we believe that this technique is reflective of all significant assumption types, and ranges of assumption inputs, that market participants would likely consider in transactions involving compound embedded derivatives. Such assumptions include, among other inputs, interest risk assumptions, credit risk assumptions and redemption behaviors in addition to traditional inputs for option models such as market trading volatility and risk free rates. We have selected Binomial Lattice to fair value our warrant derivatives because we believe this technique is reflective of all significant assumption types market participants would likely consider in transactions involving freestanding warrants derivatives. The Monte Carlo Simulations technique is a level three valuation technique because it requires the development of significant internal assumptions in addition to observable market indicators.

Significant inputs and results arising from the Monte Carlo Simulations process are as follows for the compound embedded derivative that has been bifurcated from our Senior Convertible Notes and classified in liabilities:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Quoted market price on valuation date | $ 2.96 | $ 2.97 |
| Contractual conversion rate | $ 3.17 | $ 3.74 |
| Contractual term to maturity | 0.84 Years | 1.33 Years |
| Implied expected term to maturity | 0.80 Years | 1.24 Years |
| Market volatility: | | |
| Range of volatilities | 20.0% - 54.4% | 31.3% - 64.03% |
| Range of equivalent volatilities | 37.2% - 45.2% | 38.6% - 45.0% |
| Contractual interest rate | 8.0% - 9.0% | 8.0% - 9.0% |
| Range of equivalent market risk adjusted interest rates | 8.02% - 9.08% | 9.0% - 9.1% |
| Range of equivalent credit risk adjusted yields | 0.92% | 0.94% - 1.03% |
| Risk-free rates | 0.02% - 0.10% | 0.02% - 0.16% |

The following table reflects the issuances of compound embedded derivatives, redemptions and changes in fair value inputs and assumptions related to the compound embedded derivatives during the periods ended June 30, 2013 and 2012.

| | Six Months ended June 30, 2013 | 2012 |
|---|---|---|
| Balances at January 1 | $ 1,529,583 | $ 2,680,133 |
| Issuances | | 1,291,298 |
| Expirations from redemptions of host contracts reflected | (633,351) | |

| | | |
|---|---|---|
| in income | | |
| Changes in fair value inputs and assumptions reflected in income | (42,268) | 1,227,451 |
| Balances at June 30 | $ (853,964) | $ 5,198,882 |

The fair value of the compound embedded derivative is significantly influenced by our trading market price, the price volatility in trading and the interest components of the Monte Carlo Simulation technique.

In October 2010, we also issued warrants to purchase 1,800,000 shares of our common stock in connection with a public offering of our Series G Convertible Preferred Stock, and in April 2011, we issued warrants to purchase an additional 525,000

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shares of our common stock to two holders of the Series G Convertible Preferred Stock in connection with the modification of the conversion and redemption features of the shares of Series G Convertible Preferred Stock held by them. Additionally, in November 2011, we issued warrants to purchase 1,302,083 shares of our common stock in connection with the sale of Senior Convertible Notes. These warrants required liability classification as derivative financial instruments because certain down-round anti-dilution protection or price protection features included in the warrants are not consistent with the concept of equity. We applied the Binomial Lattice valuation technique in estimating the fair value of the warrants because we believe that this technique is most appropriate and reflects all of the assumptions that market participants would likely consider in transactions involving the warrants, including the potential incremental value associated with the down-round anti-dilution protections.

The Binomial Lattice technique is a level three valuation technique because it requires the development of significant internal assumptions in addition to observable market indicators. Significant assumptions and utilized in the Binomial Lattice process are as follows for both the issuance dates of the warrants and June 30, 2013 and 2012 and December 31, 2012:

| | June 30, | | December 31, |
|---|---|---|---|
| | 2013 | 2012 | 2012 |
| Linked common shares | 1,725,000 | 1,800,000 | 1,725,000 |
| Quoted market price on valuation date | $ 2.96 | $ 3.725 | $ 2.97 |
| Contractual exercise rate | $ 2.4648 | $ 2.50 | $ 2.4648 |
| Term (years) | 0.28 | 1.28 | 0.78 |
| Range of market volatilities | 17.3% - 53.6% | 48.7% - 73.1% | 33.1% - 49.17% |
| Risk free rates using zero coupon US Treasury Security rates | 0.02% - 0.04% | 0.04% - 0.27% | 0.02% - 0.11% |

| | June 30, | | December 31, |
|---|---|---|---|
| | 2013 | 2012 | 2012 |
| Linked common shares | 525,000 | 525,000 | 525,000 |
| Quoted market price on valuation date | $ 2.96 | $ 3.725 | $ 2.97 |
| Contractual exercise rate | $ 2.4648 | $ 2.75 | $ 2.4648 |
| Term (years) | 0.79 | 1.79 | 1.28 |
| Range of market volatilities | 31.7% - 53.5% | 48.9% - 72.2% | 33.8% - 63.6% |
| Risk free rates using zero coupon US Treasury Security rates | 0.02% - 0.10% | 0.04% - 0.27% | 0.02% - 0.16% |

| | June 30, | | December 31, |
|---|---|---|---|
| | 2013 | 2012 | 2012 |
| Linked common shares | 1,562,500 | 1,562,500 | 1,562,500 |
| Quoted market price on valuation date | $ 2.96 | $ 3.725 | $ 2.97 |
| Contractual exercise rate | $ 3.60 | $ 3.60 | $ 3.60 |
| Term (years) | 3.86 | 4.86 | 4.35 |
| Range of market volatilities | 44.3% - 62.3% | 48.8% - 72.5% | 39.2% - 70.2% |
| Risk free rates using zero coupon US Treasury Security rates | 0.04% - 0.66% | 0.09% - 0.72% | 0.05% - 0.54% |

Of the 1,302,083 common shares accessible from the warrant issued on November 8, 2011, 434,027 of those common shares were accessible only based upon the Company s election to require the lender to provide the additional financing. When the lender provided additional financing of $8,000,000 on May 10, 2012, the additional 434,027 of common shares became accessible. Warrants indexed to an additional 260,417 were issued in conjunction with the additional financing.

The following table reflects the issuances of derivative warrants and changes in fair value inputs and assumptions related to the derivative warrants during the six months ended June 30, 2013 and 2012.

| | Six months ended June 30, | |
|---|---|---|
| | 2013 | 2012 |

| | | |
|---|---|---|
| Balances at January 1 | $ 3,826,619 | $ 4,653,160 |
| Issuances | | 363,542 |
| Changes in fair value inputs and assumptions reflected in income | (660,569) | 1,862,380 |
| Balances at June 30 | $ 3,166,050 | $ 6,879,082 |

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The fair value of all warrant derivatives is significantly influenced by our trading market price, the price volatility in trading and the risk free interest components of the Binomial Lattice technique.

**NOTE M REVENUE PARTICIPATION RIGHTS**

The Company s participating revenue rights consisted of the following at June 30, 2013 and December 31, 2012:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| *Cambridge* project | $ 825,000 | $ 825,000 |
| *Republic* (now *Seattle* ) project | 62,500 | 62,500 |
| Galt Resources, LLC (HMS *Victory*) | 3,756,250 | 3,756,250 |
| Total participating revenue rights | $ 4,643,750 | $ 4,643,750 |

We previously sold Revenue Participation Certificates ( RPCs ) that represent the right to share in our future revenues derived from the *Cambridge* project, which is now referred to as the HMS *Sussex* shipwreck project. We also sold RPCs related to a project formerly called the *Republic* project which we now call the *Seattle* project. The *Seattle* project refers to a shipwreck which we have not yet located. The *Cambridge* RPC units constitute restricted securities.

Each $50,000 convertible *Cambridge* RPC entitles the holder to receive a percentage of the gross revenue received by us from the *Cambridge* project, which is defined as all cash proceeds payable to us as a result of the *Cambridge* project, less any amounts paid to the British Government or their designee(s); provided, however, that all funds received by us to finance the project are excluded from gross revenue. The *Cambridge* project holders are entitled to 100% of the first $825,000 of gross revenue, 24.75% of gross revenue from $4 35 million, and 12.375% of gross revenue above $35 million generated by the project.

In a private placement that closed in September 2000, we sold units consisting of *Republic* Revenue Participation Certificates and Common Stock. Each $50,000 unit entitled the holder to 1% of the gross revenue generated by the *Seattle* project (formerly referred to as the *Republic* project), and 100,000 shares of Common Stock. Gross revenue is defined as all cash proceeds payable to us as a result of the *Seattle* project, excluding funds received by us to finance the project.

The participating rights balance will be amortized under the units of revenue method once management can reasonably estimate potential revenue for each of these projects. The RPCs for the *Cambridge* and *Republic* projects do not have a termination date, therefore these liabilities will be carried on the books until revenue is recognized from these projects or we permanently abandon either project.

In February 2011, we entered into a project syndication deal with Galt Resources LLC ( Galt ) for which they invested $7,512,500 representing rights to future revenues of any one project Galt selected prior to December 31, 2011. If the project is successful, Galt will recoup their investment plus three times the investment. These amounts will be paid out of proceeds of the project. Galt will receive 50% of the proceeds until this amount is recouped. Thereafter, they will share in additional net proceeds of the project at the rate of 1% for every million invested. Subsequently we reached an agreement permitting Galt to bifurcate their selection between two projects, the SS *Gairsoppa* and HMS *Victory* with the residual 1% on additional net proceeds assigned to the HMS *Victory* project only. Galt was paid in full during the first quarter of 2013 on their share of the SS *Gairsoppa* project investment. The remaining amount paid to Galt during the three-months ended March 31, 2013 was $12,506,755. Galt will also receive an amount equal to 50% of our net proceeds, if any, on the HMS *Victory* project until they receive two times their initial investment and thereafter will receive 7.5125% of our net proceeds from the HMS *Victory* project. Galt will not receive any further distributions from the *Gairsoppa* project proceeds.

**NOTE N REDEEMABLE SERIES G PREFERRED STOCK**

During October 2010, we designated and issued 24 shares of our authorized preferred stock as Series G 8% Convertible Preferred Stock, par value $0.0001 per share (the Series G Preferred ) as further discussed below. In April 2011 and October 2011, we redeemed 3 and 20 shares, respectively, from certain holders of the Series G Preferred for cash of $757,500 and $5,065,556, respectively, under the terms and conditions of the Series G Preferred Certificate of Designation. At the time of redemption, the carrying value of these shares of Series G Preferred amounted to $558,926 and $5,000,000, respectively. We recorded the difference between the redemption values paid and the carrying values amounting to

$198,574 and $65,556, respectively, as a deemed dividend in paid-in capital. See NOTE L for our accounting for the associated compound embedded derivative that had been bifurcated and classified in liabilities. During July 2012, the remaining 1 share of Series G Preferred was converted into 140,000 shares of common stock. There are no cumulative dividends in arrears.

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Significant terms and conditions of the Series G Preferred are as follows:

***Dividends***. The holders of the Series G Preferred will generally be entitled to receive cash dividends at a rate of $20,000 per share per year (or 8%), payable semi-annually on April 1 and October 1 of each year, commencing April 1, 2011. The dividends will be cumulative and shall accrue, whether or not earned or declared, from and after the date of issue.

***Liquidation Preference***. In the event of any liquidation, dissolution, or winding up of Odyssey s affairs, each holder of the Series G Preferred then outstanding will be entitled to receive, before any payment or distribution will be made on Odyssey s common stock or any capital stock of Odyssey ranking junior to the Series G Preferred as to the payment of dividends or the distribution of assets, an amount per share of Series G Preferred equal to the sum of (a) $250,000 plus (b) any accrued but unpaid dividends.

***Voting Rights***. The holders of Series G Preferred will be entitled to one vote for each share of common stock into which the Series G Preferred is convertible and will be entitled to notice of meetings of stockholders. The holders of Series G Preferred will also be entitled to vote as a separate class with respect to certain matters. However, no holder may exercise its voting rights if doing so would result in the holder beneficially owning in excess of 9.9% of the outstanding common stock, unless waived by the holder.

***Conversion Rights***. At any time on or after April 15, 2011, any holder of shares of Series G Preferred may convert any or all of the shares into shares of common stock. Each share of Series G preferred will be convertible into the number of shares determined by dividing $250,000 by $1.785714, which we refer to as the conversion price. The number of shares of common stock issuable upon conversion of the Series G Preferred is subject to adjustment in certain events, as discussed in the next paragraph.

***Adjustments to Conversion Rights***. If Odyssey pays a dividend or makes a distribution on its common stock in shares of common stock, subdivides its outstanding common stock into a greater number of shares, or combines its outstanding common stock into a smaller number of shares, or if there is a reorganization, or a merger or consolidation of Odyssey with or into any other entity which results in a conversion, exchange, or cancellation of the common stock, or a sale of all or substantially all of Odyssey s assets, then the conversion rights described above will be adjusted appropriately so that each holder of Series G Preferred will receive the securities or other consideration the holder would have received if the holder s Series G Preferred had been converted before the happening of the event. The conversion price in effect from time to time is also subject to downward adjustment if we issue or sell shares of common stock for a purchase price less than the conversion price or if we issue or sell shares convertible into or exercisable for shares of common stock with a conversion price or exercise price less than the conversion price for the Series G Preferred.

***Limitations Upon Conversion Rights***. No holder may convert shares of Series G Preferred if such conversion would result in the holder beneficially owning in excess of 9.9% of the outstanding common stock, unless waived by the holder. In addition, we will not issue any shares of common stock upon conversion of shares of Series G Preferred if the issuance of such shares of common stock would exceed the aggregate number of shares of common stock that we may issue upon conversion of all outstanding shares of Series G Preferred and the outstanding warrants offered hereby without breaching our obligations under the listing rules of the NASDAQ Stock Market relating to stockholder approval of certain issuances of securities.

***Redemption***. Odyssey has the option to redeem the Series G Preferred, in whole or in part, at any time after December 15, 2010 at a redemption price of 100% of the liquidation value. Commencing after March 31, 2011, the redemption price increases 1.0% each month without cap. Each holder will have the option to require Odyssey to redeem the Series G Preferred, in whole or in part, at any time after December 15, 2011 at a redemption price commencing at 109% of the liquidation value, which increases 1.0% each without cap such that, after December 15, 2011, the holder s and Odyssey s redemption prices will equal. In either case, the redemption price to be paid by Odyssey for each share of Series G Preferred will be the redemption prices referred to above plus accrued dividends. There is no sinking fund requirement for redemption of the Series G preferred stock.

On October 11, 2010, we issued (i) 20 shares of Series G Preferred, plus warrants to purchase 1,530,000 shares of our common stock for cash of $5,050,000 and (ii) 4 shares of Series G Preferred, plus warrants to purchase 270,000 shares of our common stock to settle certain promissory notes with a carrying value of $928,481. We have accounted for the Series G Preferred and warrants issued for cash as a financing transaction, wherein the net proceeds that we received was allocated to the financial instruments issued. We have accounted for the Series G Preferred and warrants issued in settlement of the promissory notes as an exchange, wherein we have recorded the financial instruments issued at their fair values and extinguished the promissory notes resulting in an extinguishment loss.

The following table summarizes the allocation for each of these transactions as of October 11, 2010:

| | Financing | Exchange | Total |
|---|---|---|---|
| Redeemable preferred stock (1) | $ 2,747,476 | $ 888,997 | $ 3,636,473 |
| Compound embedded derivatives (2) | 1,389,114 | 261,318 | 1,650,432 |
| Warrant derivatives (2) | 913,410 | 161,190 | 1,074,600 |
| Extinguishment loss | | (383,023) | (383,023) |
| | $ 5,050,000 | $ 928,482 | $ 5,978,482 |

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(1) The fair value of the redeemable preferred stock was estimated based upon its forward cash flow value, at a credit-risk adjusted market interest rate, as enhanced by the fair value of the conversion feature. Credit-risk adjusted rates used to discount the cash flow component ranged from 3.98% to 4.89% over our estimated period to redemption, which is October 2013.The fair value of the conversion feature is reflected in the compound embedded derivative line of the table.

(2) See NOTE N for information related to the valuation of these financial instruments both on the inception date of the transactions and at December 31, 2010.

Prior to making the above accounting allocation, we evaluated the Series G Preferred and the warrants for proper classification under ASC 480 *Distinguishing Liabilities from Equity* and ASC 815 *Derivatives and Hedging*.

**Series G Preferred**:

ASC 480 generally requires liability classification for financial instruments that are certain to be redeemed, represent obligations to purchase shares of stock or represent obligations to issue a variable number of common shares. We concluded that the Series G Preferred was not within the scope of ASC 480 because none of the three conditions for liability classification was present.

ASC 815 generally requires the analysis embedded terms and features that have characteristics of derivatives to be evaluated for bifurcation and separate accounting in instances where their economic risks and characteristics are not clearly and closely related to the risks of the host contract. However, in order to perform this analysis we were first required to evaluate the economic risks and characteristics of the Series G Preferred in its entirety as being either akin to equity or akin to debt. Our evaluation concluded that the Series G was more akin to a debt-like contract largely due to the fact that the financial instrument is mandatorily redeemable for cash at the option of the holder and has a return in the form of a dividend that operates similarly with an interest rate on debt. Other features of the Series G Preferred that operate like equity, such as the conversion option and voting feature, did not afford sufficient evidence, in our view, to offset the weight of the primary debt-like features; that is, the redemption feature and the dividend feature. Accordingly, based upon this conclusion the clear and close relationship of embedded derivative features was made relative to a debt-like contract.

The material embedded derivative features consisted of the conversion option and related down-round anti-dilution protection, the Company s redemption privilege, and the holder s redemption privilege. The conversion option and related anti-dilution protection, bearing risks of equity, were not clearly and closely related to the debt-like Series G Preferred and required bifurcation. The redemption features, although generally bearing risks of debt, such as credit and interest risk, were not clearly and closely related to the Series G Preferred because the Series G Preferred was deemed to be issued at a substantial discount and there are scenarios, however improbable or remote, that the redemption features as designed could double the investor s initial rate of return. Current accounting principles that are also provided in ASC 815 do not permit an issuer to account separately for individual derivative terms and features that require bifurcation and liability classification. Rather, such terms and features must be and were bundled together and fair valued as a single, compound embedded derivative.

Redeemable preferred stock represents preferred stock that is either redeemable for cash on a specific date or contingently redeemable for cash for events that are not within the control of management. Redeemable preferred stock is required to be classified outside of stockholders equity (in the mezzanine section). Because the Series G Preferred is redeemable at the holder s option, we are required to record the residual from our allocation to the mezzanine section. This amount is further subject to accretion to the redemption value over the term to the earliest redemption date using the effective method. The Series G Preferred was fully accreted to its redemption value during the period from inception to April 2011.

***Warrants***:

The warrants issued in the financing and exchange transactions have terms of three years and an exercise price of $2.50. The contractual exercise price is subject to adjustment for both traditional recapitalization events and sales of common stock or other common stock linked contracts below the contractual exercise price. The latter is referred to as down-round anti-dilution protections. The warrants did not fall within the scope of ASC 480 under any of the three conditions referred to above. However, the warrants required derivative liability accounting because certain down-round anti-dilution protections are terms that are not consistent with the definition for financial instruments indexed to a company s own stock.

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**NOTE O SUBSEQUENT EVENTS**

During July 2013, Odyssey Marine Exploration, Inc. entered into a $10 million project term loan agreement with Fifth Third Bank. The facility will mature on July 24, 2014. The term loan bears interest at a floating rate equal to the one-month LIBOR rate plus 500 basis points. Odyssey may make prepayments in whole or in part without premium or penalty. An origination fee of $50,000 was payable at closing. A restricted cash deposit of $500,000 was required to cover interest payments. The term loan is secured by approximately $15.0 million worth of silver recovered from the SS *Gairsoppa*. We recovered approximately 1.8 million ounces of silver bullion in total during July 2013 which we expect to monetize during the remainder of 2013. We are required to comply with a number of customary covenants. The proceeds will be used to fund the project recovery costs.

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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 Annual Report on Form 10-K for the year ended December 31, 2012.

In addition to historical information, this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 regarding the Company s expectations concerning its future operations, earnings and prospects. On the date the forward-looking statements are made, the statements represent the Company s expectations, but the expectations concerning its future operations, earnings and prospects may change. The Company s expectations involve risks and uncertainties (both favorable and unfavorable) and are based on many assumptions that the Company believes to be reasonable, but such assumptions may ultimately prove to be inaccurate or incomplete, in whole or in part. Accordingly, there can be no assurances that the Company s expectations and the forward-looking statements will be correct. Please refer to the Company s most recent Annual Report on Form 10-K for a description of risk factors that could cause actual results to differ (favorably or unfavorably) from the expectations stated in this discussion. Odyssey disclaims any obligation to update any of these forward-looking statements except as required by law.

**Operational Update**

Additional information regarding our announced projects may be found in our Annual Report on Form 10-K for the year ended December 31, 2012 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2013. Only projects with material status updates since those report were filed are discussed below. We may have other projects in various stages of planning or execution that may not be disclosed for security or legal reasons until considered appropriate by management.

We may use our owned vessel, the *Odyssey Explorer,* or chartered vessels to conduct operations based on availability.

**HMS *Victory* Project**

In 2008, Odyssey discovered HMS *Victory* (lost 1744) and is, as recognized by the owner and under maritime law, salvor-in-possession of the wreck. After a period of joint consultation between the UK Ministry of Defense (MOD) and the UK Department for Culture, Media and Sport, and a public consultation period, the title to the HMS *Victory* was transferred to the Maritime Heritage Foundation in January 2012. The Foundation, a charity established to locate shipwrecks, investigate, recover and preserve artifacts to the highest archaeological standards and to promote knowledge and understanding of Britain s maritime heritage, has now assumed responsibility for the future management of the wreck site. The Foundation has contracted with Odyssey to provide a full range of archaeological, recovery, conservation and other services.

Pursuant to an agreement with the Foundation, Odyssey has produced an extensive project design for the archaeological excavation of the site, including a complete plan for recording, documentation, conservation, publication and public education. The agreement calls for Odyssey s project costs to be reimbursed and for Odyssey to be paid a percentage of the recovered artifacts fair value. The preferred option is for Odyssey to be compensated in cash.

A report was provided to the Foundation and the UK MOD that details monitoring of the site conducted by Odyssey and Wreck Watch International between 2008 and early 2012. The report includes evidence, including photographs, of additional damage to the site since 2008 caused by human and natural forces. This report was published in June 2012 and is available here http://shipwreck.net/victorypapers.php. We also provided a revised archaeological project design, developed as a result of the impact report, to the Maritime Heritage Foundation. This revised project design has been approved by the Foundation s Scientific Advisory Committee, chaired by marine archaeologist Dr. Margaret Rule and, submitted to the UK MOD by the Maritime Heritage Foundation. On January 31, 2013, the Maritime Heritage Foundation received a response from the MOD in which it was acknowledged there is an identified threat to the Victory site. The letter also sets forth a set of Key

Management Principles to be agreed prior to undertaking additional work on the site. We have reached agreement on these management principles with the Foundation which would allow us to move forward on the project, while providing comfort to the Government and the MOD Advisory Group that proper archaeological principles will be adhered to through the course of the project. The Foundation has submitted these Management Principles as well as a report detailing the non-disturbance survey work on the site to the MOD.

While awaiting instructions from the Maritime Heritage Foundation to move forward on the Victory project, the *Odyssey Explorer* is conducting survey operations on other projects.

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***Gairsoppa* Project**

On January 25, 2010, Odyssey was awarded the exclusive salvage contract for the cargo of the SS *Gairsoppa* by the United Kingdom Government (UKG) Department for Transport. The contract was awarded after a competitive bid process.

The SS *Gairsoppa* was a 412-foot steel-hulled British cargo ship that was torpedoed by a German U-boat in February 1941 while enlisted in the service of the UKG Ministry of War Transport. The British Ministry of War Transport paid a War Risk Insurance Claim for £325,514 (in 1941 value) for 2,817 bars of silver that were reported to be on board the *Gairsoppa* when she sank. Sources, including Lloyd s Record of War Losses indicate a total cargo of silver worth £600,000 at the time was lost on the Gairsoppa, which would equate to approximately seven million total ounces of silver was on board, including over 3 million ounces of private silver bullion insured by the UKG. The UKG only paid this insurance on privately-owned cargo. Any cargo owned by the UKG would not have been insured through the War Risk Insurance Office.

Under the recovery contract, Odyssey assumes the risk and responsibility for the search, cargo recovery, documentation, and marketing of the cargo and will retain 80% of the net salved value.

Search operations began in July 2011. On September 26, 2011, we announced confirmation of the identity and location of the SS *Gairsoppa* approximately 300 miles southwest of Galway, Ireland, in waters approximately 4700 meters deep.

Initial recovery operations began aboard the MV *Seabed Worker* on June 4, 2012, and ended on September 23, 2012. During 2012 operations, a total of 1,218 silver ingots, weighing approximately 1.4 million troy ounces, were recovered from the SS *Gairsoppa,* as well as several hundred artifacts which have been declared to the UKG Receiver of Wreck.

The silver bullion recovered in 2012 was refined and sold on the London Metals Exchange. The first sale occurred in September 2012 and continued thru January 2013. Over $41 million in proceeds were received. In addition, over $600,000 *in gold* value was extracted as a by-product during of the silver processing.

Odyssey began 2013 operations on the *Gairsoppa* in June 2013. On July 22, we announced the recovery of an additional 1,574 silver ingots weighing about 1,100 ounces each or almost 1.8 million troy ounces in total, settings a new record for the deepest and largest precious metal recovery from a shipwreck. Included in this recovery were bars of .999 fine silver. The silver has been transported to a secure facility in the United Kingdom and analysis has begun in preparation for processing.

The recovery from the SS *Gairsoppa* (2012 and 2013 operations) totals 2,792 silver ingots or more than 99% of the insured silver reported to be aboard the *Gairsoppa* when she sank. To date, no uninsured silver has been located.

***Mantola* Project**

Odyssey was also awarded the exclusive salvage contract for the cargo of the SS *Mantola* by the UKG Department for Transport. On October 10, 2011, we announced the discovery of the SS *Mantola*, which sank on February 9, 1917, after being torpedoed by German submarine U-81. Odyssey discovered the shipwreck approximately 2,500 meters beneath the surface of the northern Atlantic Ocean, approximately 100 miles from the SS *Gairsoppa* shipwreck.

In 1917, the British Ministry of War Transport paid a War Risk Insurance Claim for £110,000 (in 1917 value) for silver that was reported to be on board the *Mantola* when she sank. This sum would equate to more than 600,000 ounces of silver based on silver prices in 1917. In September 2011, the UK Government Department for Transport awarded Odyssey a salvage contract for the cargo of the SS *Mantola*. The terms and conditions are similar to the SS Gairsoppa salvage contract. Under the agreement, Odyssey will retain 80% of the net salved silver value recovered.

Operations on the *Mantola* were planned in conjunction with operations on the SS *Gairsoppa* under the umbrella of North Atlantic Expedition. In 2012, operations were conducted to test ship and equipment capabilities while on the shallower *Mantola* site as well as perform initial recovery efforts during 12 days early in the expedition. Recovery operations on the *Mantola* are being conducted during the 2013 season.

**Commodity Wreck Program**

On September 20, 2012, we announced project approval and salvage contracts from ship owners for a multi-year commodity shipwreck program with a potential total recovery value of approximately $184 million based upon current commodity prices and related assumptions. Odyssey has negotiated salvage contracts with ship owners that will award 90% of the net recovered cargo value to Odyssey for four separate deep-ocean shipwrecks carrying valuable commodities when they sank. There are additional valuable shipwrecks that do not require salvage agreements that can be added to the program and undertaken while Odyssey has a ship and equipment nearby.

Planning is underway to assemble the necessary ship and equipment for the exploration, assessment and recovery of these cargoes. Exploration and assessment is targeted to begin in 2013. The timing will depend on the availability of ships, the success and amount of ship time dedicated to the Gairsoppa and Mantola projects and other factors.

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**Subsea Mineral Mining Exploration Projects**

Neptune Minerals: We currently own 6.2 million shares of Neptune Minerals, a company focused on discovering and commercializing high-value mineral deposits. To date Neptune Minerals has been successful in attracting the investment capital required to fund mineral exploration expeditions. Neptune s capital raise, completed in December 2011, was at $12 per share of Class B common stock. Neptune Minerals completed another private placement in 2012 for approximately $17 million at $17.50 per share. Our current ownership is approximately 30%. Odyssey and Neptune are currently planning operations in one of Neptune s highly prospective tenement areas to produce a formal resource estimate.

Chatham Rock Phosphate: We currently own 9.3 million shares of Chatham Rock Phosphates, Ltd (CRP.NZ), Chatham Rock Phosphate currently holds a license covering over 4,000 square kilometers off the coast of New Zealand believed to have significant seabed deposits of rock phosphate and other potentially valuable minerals. Since our share acquisition, the stock price has risen dramatically. Other major investors have acquired shares that have diluted our position to approximately 7.3%.

Oceanica Resources: In February 2013, we disclosed Odyssey s ownership interest, through Odyssey Marine Enterprises, Ltd., a wholly owned Bahamian company ( Enterprises ), in Oceanica Resources, S. de R.L., a Panamanian company (Oceanica). Oceanica is in the business of mineral exploration and controls exclusive permits for offshore mineral deposits in an area which is believed to feature a valuable mineral resource based on extensive exploratory activities undertaken by Odyssey. Preliminary resource assessment based on extensive coring and laboratory work suggests that the mining concession, which has been granted for a 50 year period to a subsidiary of Oceanica, is a world-class resource with significant commercial and strategic value. Coring sample assay results and preliminary sample beneficiation tests (sizing and flotation) indicate that the resource can be feasibly and economically mined and processed. A draft Technical Report featuring a formal resource assessment is in process and one of the world s leading investment banks is advising the company on options for maximizing the value of this asset.

Odyssey initially held 77.6 million of Oceanica s 100.0 million outstanding shares. Subsequently, Enterprises sold and transferred to Mako Resources (Mako), LLC 15.0 million shares for a purchase price of $1.00 per share or $15 million and granted Mako options to purchase an additional 15.0 million shares at the purchase price of $2.50 per shares before December 31, 2013.

In June, 2013 Mako exercised an option to purchase an additional 8 million shares. The option exercise price of $1.25 per share, discounted from the original exercise price of $2.50 per share in order to facilitate this transaction, represents a 25% value increase over the price Mako paid for the Oceanica shares purchased in February 2013. Mako continues to hold the option to purchase an additional seven million shares of Oceanica at $2.50 per share at any time on or before December 31, 2013.

As part of the company s strategy for involvement with Oceanica, in parallel with the early exercise, Odyssey has executed an agreement for the purchase of one million shares of Oceanica from another Oceanica shareholder at $1.25 per share in a transaction that provides a one-year option to purchase an additional one million shares at $2.50 per share. This transaction also grants Odyssey voting rights on an additional three million shares of Oceanica held by such other Oceanica shareholder so long as there is no change in control of Odyssey.

The net effect of these transactions is that Odyssey will ultimately incur less dilution of its Oceanica ownership than originally anticipated under the initial stock sale and option agreement with Mako. Assuming all options are exercised and based on the total number of shares currently outstanding, Odyssey would own 49.6 percent of Oceanica with voting rights on a total of 52.6 percent of the shares.

While undergoing routine dry dock, maintenance, and inspections the *Dorado Discovery* upgraded equipment and capabilities including installation of additional drilling/coring tools and an advanced Reson 7150 multi-beam sonar system capable of mapping the ocean floor and analyzing targets to 6000 meters deep. Testing is now underway and the *Dorado Discovery* is resuming survey and exploration projects in the Pacific Ocean.

**Admiralty Legal Proceedings**

An admiralty arrest is a legal process in which we may seek recognition from the Court of our salvor-in-possession status for a specific shipwreck, site or cargo. It is the first legal step in establishing our rights to ownership or to a salvage award. If we are able to confirm that any entity has a potential legitimate legal claim to any materials recovered from any shipwreck site, we will provide legal notice to any and all potential claimants and pursue prompt resolutions of all claims.

***Black Swan* Arrest**

The Eleventh Circuit Court of Appeals upheld the dismissal of the case by the United States Federal District Court for the Middle District of Florida finding no subject matter jurisdiction under the Foreign Sovereign Immunities Act. On February 23, 2012, Odyssey complied with the Court s order by transferring the coins and artifacts to Spain. On April 16, 2012, Spain filed a motion with the district court for an award of fees and costs related to the case. On November 15, 2012, the district court Magistrate Judge entered a Report and Recommendation recommending that Spain be awarded fees and costs, but only those incurred after dismissal of the case from February 10, 2012 to March 20, 2012, related to the transfer of artifacts held in Gibraltar. On July 2, 2013, the Magistrate Judge issued a second Report and Recommendation clarifying the hourly rates recommended for use in calculating any fees to be awarded. The court has taken the matter under consideration.

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All of Odyssey s significant filings to-date, including those made at the district court level, can be viewed at http://www.shipwreck.net/blackswanlegal.php.

**Unidentified Shipwreck (Bray Case)**

On August 15, 2012, the district court dismissed this case, finding that the Plaintiff had failed to state a cause of action upon which relief could be granted. The Eleventh Circuit upheld the dismissal on March 11, 2013, and the case was closed on April 16, 2013.

**Critical Accounting Policies and Changes to Accounting Policies**

There have been no material changes in our critical accounting estimates since December 31, 2012, nor have we adopted any accounting policy that has or will have a material impact on our consolidated financial statements.

**Results of Operations**

The dollar values discussed in the following tables, except as otherwise indicated, are approximations to the nearest $100,000 and therefore do not necessarily sum in columns or rows. For more detail refer to the Financial Statements in Part I, Item 1.

**Three-months ended June 30, 2013, compared to three-months ended June 30, 2012**

| **Increase/(Decrease)** | | | **2013 vs. 2012** | |
|---|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **$** | **%** |
| Artifact sales and other | $ .2 | $ .1 | $ .1 | 71% |
| Exhibit | | .1 | (.1) | (72) |
| Expedition charter | | 1.2 | (1.2) | (100) |
| Total revenue | $ .3 | $ 1.4 | $ (1.2) | (82)% |
| Cost of sales | $ .1 | $ .1 | $ | 6% |
| Marketing, general and administrative | 2.9 | 2.5 | .4 | 18 |
| Operations and research | 9.5 | 9.6 | | |
| Total operating expenses | $ 12.5 | $ 12.1 | $ .4 | 3% |
| Other income (expense) | $ 1.1 | $ (4.9) | $ 6.0 | 122% |
| Net income (loss) | $ (10.9) | $ (15.6) | $ 4.7 | 30% |

*The explanations that follow are for the three-months ended June 30, 2013, compared to the three-months ended June 30, 2012.*

**Revenue**

The decrease in total revenue of $1.2 million in 2013 was primarily related to a decrease in expedition charter revenue which was associated with our subsea mineral exploration charters related to Chatham Rock Phosphate, Ltd. charter services performed in 2012.

**Operating Expenses**

Marketing, general and administrative expenses were $2.9 million in 2013 as compared to $2.5 million in 2012. The increase of $.4 million primarily represented an increase in our professional fees and services, and other employee-related expenses.

Operations and research expenses were $9.5 million in 2013 as compared to $9.6 million in 2012. The decrease in operating and research expenses represented an increase in mineral exploration overhead expenses ($.6 million) and the *Gairsoppa* project chartered vessel cost ($.5 million) offset by a decrease in ship operations and research expenses ($1.2 million).

Other income and expense generally consists of interest income on investments offset by interest expense on our bank term and other mortgage loans and convertible notes. It also includes the change in fair value of the derivatives related to our issuance of Series G convertible preferred stock and senior convertible notes. The other income variance of $6.0 million in the first quarter of 2013 was primarily related to the fair value of the derivative financial instruments ($5.2 million, see NOTE L).

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**Six-months ended June 30, 2013, compared to six-months ended June 30, 2012**

| **Increase/(Decrease)** | | | **2013 vs. 2012** | |
|---|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **$** | **%** |
| Artifact sales and other | $ 1.0 | $ .2 | $ .8 | 450% |
| Exhibit | .1 | .1 | | (19) |
| Expedition charter | | 4.0 | (4.0) | (100) |
| Total revenue | $ 1.1 | $ 4.3 | $ (3.2) | (74)% |
| Cost of sales | $ .2 | $ .1 | $ .1 | 94% |
| Marketing, general and administrative | 5.7 | 4.8 | .9 | 18 |
| Operations and research | 15.2 | 14.7 | .5 | 4 |
| Total operating expenses | $ 21.2 | $ 19.7 | $ 1.5 | 8% |
| Other income (expense) | $ (.6) | $ (5.7) | $ 5.1 | 89% |
| Net income (loss) | $ (20.6) | $ (21.1) | $ .5 | 2% |

*The explanations that follow are for the six-months ended June 30, 2013, compared to the six-months ended June 30, 2012.*

**Revenue**

The decrease in total revenue of $3.2 million was primarily related to a decrease in expedition charter revenue of $4.0 million and an increase in artifact sales and other of $.8 million (coins and Gairsoppa project proceeds). The decrease in expedition charter revenue of $4.0 million was associated with our subsea mineral exploration charter services with Chatham Rock Phosphates off the coast of New Zealand which took place in 2012. The increase in artifact sales of was due to over 500 more coins sold in the 2013 versus 2012.

**Operating Expenses**

Cost of sales increased by $.1 million in 2013 versus 2012 due more than 500 silver coins sold in the 2013 versus 2012.

Marketing, general and administrative expenses were $5.7 million in 2013 as compared to $4.8 million in 2012. The increase of $.9 million represented an increase in employee-related expenses ($.7 million) which primarily related to share-based compensation and additional incentive accruals, and professional fees and services ($.4 million) offset by other favorable expenses.

Operations and research expenses were $15.2 million in 2013 as compared to $14.7 million in 2012. The increase of $.5 million represented an increase in mineral exploration overhead expenses ($.8 million) and the *Gairsoppa* project chartered vessel cost ($.5 million) offset by a decrease in ship operations and other research expenses ($.8 million).

**Other Income (Expense)**

Other income and expense generally consists of interest income on investments offset by interest expense on our bank term and other mortgage loans and convertible notes. It also includes the change in fair value of the derivatives related to our issuance of Series G convertible preferred stock and senior convertible notes. The favorable other expense variance of $5.1 million in 2013 was primarily related to a favorable impact on the fair value of the derivative financial instruments ($4.4 million, see Note L). Also included in other expense was a favorable impact of $.7 million that was related to lower interest expense which primarily related to the interest accretion on the convertible note payable versus 2012.

**Liquidity and Capital Resources**

| (Dollars in thousands) | Six-Months Ended June 2013 | June 2012 |
|---|---|---|
| Summary of Cash Flows: | | |
| Net cash used by operating activities | $ (26,506) | $ (13,127) |
| Net cash used by investing activities | (2,629) | (597) |
| Net cash provided by financing activities | 29,376 | 9,288 |
| Net increase (decrease) in cash and cash equivalents | $ 241 | $ (4,436) |
| Beginning cash and cash equivalents | 10,096 | 7,972 |
| Ending cash and cash equivalents | $ 10,338 | $ 3,536 |

***Discussion of Cash Flows***

Net cash used by operating activities for the first six months of 2013 was $26.5 million. This amount primarily reflected a net loss before non-controlling interest of $20.8 million offset in part by non-cash items of $2.4 million including depreciation and amortization ($.9 million), share-based compensation ($1.2 million), notes payable interest accretion and loan fee

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amortization ($1.3 million), unfavorable change in the fair value of derivative liabilities ($1.3 million increase to Net Loss, see NOTE L), and senior debt interest settled with common stock ($.3 million). These non-cash expenses were offset by a $.3 million note payable that was converted to an investment in consolidated entity ( Oceanica ). Other working capital changes (including non-current assets) also provided a decrease in working capital of $7.8 million which primarily included an $11.4 decrease in accrued expenses primarily representing the $12.5 million payment to Galt Resources LLC for the remainder due on the *Gairsoppa* project. Other changes included a $1.7 million decrease in accounts receivable primarily relating to *Gairsoppa* project proceeds, and a $.4 million decrease in inventory and restricted cash, a $1.8 million increase in other assets which primarily represented the charter deposit for the *Gairsoppa* project and a $3.3 million decrease in accounts payable.

Net cash used by operating activities for the first six months of 2012 was $13.1 million. This amount primarily reflected an operating loss of $21.1 million offset in part by non-cash items of $6.8 million including depreciation and amortization ($.8 million), share-based compensation ($.9 million), notes payable interest accretion and loan fee amortization ($2.0 million), unfavorable change in the fair value of derivative liabilities ($3.1 million increase to Net Loss, see NOTE L). Other working capital changes (including non-current assets) also provided an increase in cash of $1.2 million. These changes primarily included a net increase of other assets and accounts receivable of $3.0 million (primarily relating to the $3.0 million charter deposit for our *Gairsoppa* and *Mantola* recovery projects) offset by a net increase in accounts payable and accrued expenses of $4.0 million (primarily relating to our ship charter operations).

Cash flows used in investing activities for the first six months of 2013 were $2.6 million. The major purchases in the first quarter 2013 included $1.8 million for new mineral exploration equipment for the Dorado Discovery (a state-of-the-art multi beam system and traction winch). Also included for 2013 was $.5 million for the Odyssey Explorer which included equipment replacement and a major engine overhaul which extended the useful life of the vessel asset. Another $.3 million in investing activities for 2013 represented the purchase of other marine and corporate property and equipment. Cash flows used in investing activities for the first six months of 2012 of $.6 million represented the purchase of marine property and equipment.

Cash flows provided by financing activities for the first six months of 2013 were $29.4 million which primarily represented $25.0 million from the sale of a 23% interest in Oceanica Resources, S. de. R.L., (a Panamanian company Oceanica ), a majority owned subsidiary (see General Discussion under *Other Cash Flow and Equity Areas*). Oceanica is in the business of mineral exploration and controls exclusive mining licenses for offshore mineral deposits. The licenses include areas which, based upon extensive exploration and analysis undertaken by Odyssey, are believed to feature valuable mineral resources. Preliminary resource assessments indicate that the licenses, or concessions, which have been granted for a 50-year period to a wholly owned subsidiary of Oceanica, may prove to have significant economic and strategic value. Additional cash flow was provided from the exercise of outstanding warrants ($4.9 million) offset by repayment of debt obligations ($.5 million). Cash flows provided by financing activities for the first six months of 2012 was $9.3 million which primarily represented $2.0 million proceeds from the additional term loan from Fifth Third Bank in March 2012 offset by repayment of mortgage and loans payable and the $8.0 million additional proceeds from the second tranche of the Senior Convertible Note (Additional Note).

***Other Cash Flow and Equity Areas***

**General Discussion**

At June 30, 2013, we had cash and cash equivalents of $10.3 million, an increase of $.2 million from the December 31, 2012 balance of $10.1 million.

In January 2013, we entered into a letter agreement with the Senior Convertible Note investor agreeing to defer until March 1, 2013, the installment payments that would have been otherwise due On January 1, 2013 and February 1, 2013. The investor had previously agreed to defer the December installment payments therefore making the total amount of payments deferred approximately $2.4 million. Also, the Additional Note conversion price was amended from $3.74 to $3.17. The remaining principal balance at December 31, 2012 for the Additional Note was $4.1 million.

During January 2013, investors exercised $2.25 warrants which expired on January 31, 2013 in the amount of over $4.5 million.

During February 2013 Odyssey Marine Exploration, Inc. ( Odyssey ), Odyssey Marine Enterprises, Ltd., a Bahamian company (the Enterprises ), and Oceanica Resources, S. de. R.L., a Panamanian company ( Oceanica ), entered into a purchase agreement with an investor group. Enterprises is a wholly owned subsidiary of Odyssey. As of the date of the purchase agreement, Enterprises held 77.6 million of Oceanica s 100.0 million outstanding cuotas (a unit of equity interest under Panamanian law). Enterprises sold the investor group 15.0 million of the cuotas held by Enterprises for a purchase price of U.S. $1.00 per quota ($15 million). The investor was granted an option to purchase 15 million additional cuotas held by Enterprises which have an exercise price of U.S. $2.50 per cuota and are exercisable at any time and from time to time through and until December 31, 2013. Oceanica is in the business of mineral exploration and controls exclusive mining licenses for offshore mineral deposits. The licenses include areas which, based upon extensive exploration and analysis undertaken by Odyssey, are believed to feature valuable world-class mineral resources. Preliminary resource assessments indicate that the licenses, or concessions, which have been granted for a 50-year period to a wholly owned subsidiary of Oceanica, may prove to have significant economic and strategic value.

During June 2013 Odyssey Marine Exploration, Inc. ( Odyssey ), received $10 million from the early exercise of an option held by Mako Resources, LLC, an independent investment group, to purchase eight million shares of Oceanica Resources, S. de R.L. owned by Odyssey. Mako was granted the option in connection with Mako s earlier purchase of 15 million shares of Oceanica Resources from Odyssey in February 2013. The option exercise price of $1.25 per share, discounted from the original exercise price of $2.50 per share in order to facilitate this transaction, represents a 25% value increase over the price Mako paid for the Oceanica shares purchased in February 2013. Mako continues to hold the option to purchase an additional seven million shares of Oceanica at $2.50 per share at any time on or before December 31, 2013. As part of the our strategy to maintain a control position in Oceanica, in parallel with the early exercise, Odyssey has also reached an agreement to purchase one million shares of Oceanica from another Oceanica shareholder at $1.25 per share in a transaction that provides a one-year option to purchase an additional one million shares at $2.50 per share. This transaction also grants Odyssey voting rights on an additional three million shares of Oceanica held by such other Oceanica shareholder so long as there is no change in control of Odyssey. The net effect of these transactions is that Odyssey will ultimately incur less dilution of its Oceanica ownership than originally anticipated under the initial stock sale agreement with Mako. Odyssey will now be able to effectively maintain voting control in the entity. Assuming all options are exercised and based on the total number of shares currently outstanding, Odyssey would own 49.6 percent of Oceanica with voting rights on a total of 52.6 percent of the shares.

During July 2013, we announced a successfully recovery of over 60 U.S. tons of silver bullion from the SS *Gairsoppa*, which included 1,574 silver ingots weighing approximately 1100 ounces each or approximately 1.8 million troy ounces. The silver has been transported to a secure facility in the United Kingdom and will be monetized in 2013. After recovery of charter-related expenses, the remaining proceeds will be split 80% to Odyssey and 20% to the United Kingdom.

***Bank Term Loan***

On July 11, 2013, we amended our $5 million term loan with Fifth Third Bank (the Bank ). The term loan matured on July 11, 2016, subject to acceleration upon certain specified events. The term loan bears floating interest at the one month LIBOR rate plus 500 basis points. We are required to make semi-annual fixed principal payments each year of $500,000, beginning January 11, 2014. Any prepayments may be made without premium or penalty. A commitment renewal fee of $25,000 was paid at closing. We are not required to maintain restricted cash on deposit in connection with the term loan.

The term loan is secured by approximately 25,000 numismatic coins recovered from the SS *Republic* shipwreck, which amount will be reduced over the term by the amount of coins sold by us. The coins used as collateral are held by a custodian for the security of the Bank. The borrowing base is equal to forty percent (40%) of the eligible coin inventory valued on a rolling twelve-month wholesale average value basis. We are required to comply with a number of customary covenants.

In conjunction with the renewal of the term loan, we also renewed our mortgage Loan Agreement with the Bank for our corporate office building. This loan had a remaining principal balance of $1,302,000 as of July 11, 2013. The Renewal Commercial Property Note (the Note ) bears floating interest at the one month LIBOR rate plus 375 basis points. The loan matures on July 11, 2016 and requires us to make monthly principal payments in the amount of $10,750, plus accrued interest. The first mortgage is secured by our real property at 5215 West Laurel Street, Tampa, Florida, the location of our principal executive offices. The Second Amendment to the Loan Agreement, the Note, and the Mortgage contain customary representations and warranties, affirmative and negative covenants, conditions, and other provisions. An interest and principal reserve account has been modified to require an amount equal to $400,000 annually of which we already had approximately $200,000 in the account.

On July 24, 2013, Odyssey Marine Exploration, Inc. entered into a $10 million project term loan agreement with Fifth Third Bank. The facility will mature on July 24, 2014. The term loan bears interest at a floating rate equal to the one month LIBOR rate plus 500 basis points. Odyssey may make prepayments in whole or in part without premium or penalty. An origination fee of $50,000 was payable at closing. A restricted cash deposit of $500,000 would be required to cover any potential interest payments if the full amount of the term loan is advanced. The term loan is secured by approximately $15.0 million worth of silver recovered from the SS *Gairsoppa*. We are required to comply with a number of customary covenants. The proceeds will be used to fund the project recovery costs.

**Trends and Uncertainties**

Our current 2013 business plan estimates positive cash flow from operating and financing activities. The plan contains assumptions which include that several of our planned projects are funded through project recoveries (Gairsoppa) and other financings, syndications or other partnership opportunities. The 2013 business plan expenses include a 90-day charter agreement which we recently executed with a company to provide a ship and equipment to conduct recovery operations on the *Gairsoppa* and *Mantola* projects similar to the work performed in 2012 when we monetized over $41 million of silver. Based upon our current expectations, we believe our cash position will be sufficient to fund operating cash flows throughout the rest of 2013 taking into account our beginning cash balance, current cash flow expectations and revenues from multiple sources, including projected sales from recoveries, syndicated projects and other potential financing opportunities. We renewed our term and mortgage loans with Fifth Third Bank in July 2013. We have also borrowed $10 million in July 2013 from Fifth Third Bank which was secured by Gairsoppa project proceeds based upon the recent recovery. We have experienced several years of net losses resulting in a stockholders deficit. Our capacity to generate net income in future periods is dependent upon our success in recovering and monetizing shipwrecks, realizing capital gains from sale of interest in mineral exploration entities, generating income from shipwreck or mineral exploration charters or generating income from other projects. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to raise additional capital or curtail expenses. While we have been successful in raising the necessary funds in the past, there can be no assurance that we can continue to do so.

**New Accounting Pronouncements**

As of June 30, 2013, the impact of recent accounting pronouncements on our business is not considered to be material.

**Off-Balance Sheet Arrangements**

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.

**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. Our term loan and primary mortgage bear interest at variable rates and expose us to interest rate risk. Our term loan bears a variable interest rate based on LIBOR and our primary mortgage bears an interest at a variable rate based on the prime rate. See NOTE H for further detail on these instruments. Both of these instruments expose us to interest rate risk. On our primary mortgage, for an increase of every 100 basis points, our interest obligation increases, at most, by approximately $1,100 per month until maturity in July 2013. On our term loan, an increase of every 100 basis points to the interest rate increases our interest obligation, at most, by approximately $4,300 per month until maturity in July 2013. If an increase to the rates on these instruments occurs, it will have an adverse effect on our operating cash flows and financial condition but we believe it would not be material. We do not believe we have other 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 our 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 our disclosure controls and procedures are effective. There have been no significant changes in our internal controls over financial reporting during the first quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The Company is not currently a party to any material litigation other than the admiralty proceedings described in this report. From time to time in the ordinary course of business, we may be subject to or may assert a variety of claims or lawsuits.

See the information set forth under the heading Operational Update Admiralty Legal Proceedings in Part I, Item 2 of this report for disclosure regarding certain admiralty legal proceedings in which we are involved. Such information is hereby incorporated by reference into this Part II, Item 1.

**ITEM 1A. Risk Factors**

For information regarding risk factors, please refer to Item 1A in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. Investors should consider such risk factors, as well as the risk factor set forth below, prior to making an investment decision with respect to the Company s securities.

**The issuance of shares at conversion prices lower than the market price at the time of conversion and the sale of such shares could adversely affect the price of our common stock.**

Some of our outstanding shares may have been acquired from time to time upon conversion of outstanding senior convertible notes at conversion prices that are lower than the market price of our common stock at the time of conversion. Odyssey has agreed to pay each amortization payment due under the notes in shares of Odyssey s common stock, if certain conditions are met; provided, that Odyssey may, at its option, elect to pay such amortization payments in cash. The conversion rate applicable to any amortization payment in shares of Odyssey s common stock will be the lower of (a) the then-current conversion price and (b) a price equal to 85.0% of the average of the volume-weighted average price of Odyssey s shares of common stock for a ten-day period immediately prior to the applicable amortization date. Conversion of the notes at conversion prices that are lower than the market price at the time of conversion and the sale of the shares issued upon conversion could have an adverse effect upon the market price of our common stock.

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

None.

**ITEM 6. Exhibits**

| | |
|---|---|
| 10.1 | Security purchase agreement (Filed herewith electronically) |
| 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) |
| 101.1 | Interactive Data File |

**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: August 8, 2013

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