

ODYSSEY MARINE EXPLORATION INC  
Form 10-K  
March 16, 2007  
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## U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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### FORM 10-K

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(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-31895

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## ODYSSEY MARINE EXPLORATION, INC.

(Exact name of small business issuer as specified in its charter)

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Nevada  
(State or other jurisdiction of  
incorporation or organization)

5215 W. Laurel Street, Tampa, Florida 33607

(Address of principal executive offices)

(813) 876-1776

(Registrant's telephone number including area code)

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84-1018684  
(I.R.S. Employer

Identification No.)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes  No

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the 33.3 million shares of voting stock held by non-affiliates of Odyssey Marine Exploration, Inc. as of June 30, 2006 approximated \$82.6 million. As of March 1, 2007, the Registrant had 46,897,833 shares of Common Stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this Form 10-K is incorporated by reference to the Company's Definitive Proxy Statement for the Registrant's Annual Meeting of the Shareholders to be held on May 18, 2007.

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*As used in this Annual Report on Form 10-K, we, us, our company and Odyssey means Odyssey Marine Exploration, Inc. and our subsidiaries, unless the context indicates otherwise. Previously, Odyssey's fiscal year was a twelve-month period ending on the last day of February. As a result of a change in our fiscal year, Odyssey's 2004 transition period consisted of the ten-month period ended December 31, 2004. In 2005 and 2006 Odyssey's fiscal year included twelve-month periods.*

### **PART I**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. The statements regarding Odyssey Marine Exploration, Inc. and its subsidiaries contained in this report that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, anticipates, believes or plans, or comparable terminology, are forward-looking statements based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements.

Important factors known to us that could cause such material differences are identified in this report and in our RISK FACTORS in Item 1A. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future reports to the SEC.

#### **ITEM 1. BUSINESS**

##### **Overview**

Odyssey Marine Exploration, Inc. is engaged in the archaeologically sensitive exploration and recovery of deep-water shipwrecks throughout the world. We employ advanced state-of-the-art technology, including side scan sonar, remotely operated vehicles, or ROVs, and other advanced technology, that enables us to locate and recover shipwrecks at depths that were previously unreachable in an economically feasible manner. Odyssey continues to build on a foundation of shipwreck research, development of political relationships and advancement of techniques for deep ocean search and recovery. Odyssey is a Nevada corporation formed on March 5, 1986.

Our vision is to become the world leader in deep-ocean shipwreck exploration, archeological excavation, education, entertainment, and marketing of shipwreck cargoes and related merchandise.

##### **Business Segments**

We manage and evaluate the operating results of the business in two primary segments: shipwreck exploration and themed attractions.

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

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

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

Our sales and business development department includes support functions for the promotion and distribution of products through both retail and wholesale channels. Direct sales efforts (inbound and outbound call center and related infrastructure) were outsourced in the second quarter 2006 to an experienced direct marketing partner.

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Our shipwreck exploration segment continues to rely significantly on the recovered shipwreck cargoes as a primary source of raw material. The availability of shipwreck cargo inventory is primarily dependent on the success of finding intrinsically valuable cargoes from shipwrecks. If we are not successful in the exploration and recovery of shipwrecks, we may not have sufficient raw materials to sell (see Item 1A. Risk Factors).

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Our corporate administrative department oversees all aspects of business management and reporting including compliance. The department is also responsible for corporate marketing and communications, finance and accounting, information technology, legal and human resources.

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

We held the grand opening of our first themed attraction, *Odyssey's Shipwreck & Treasure Adventure*, on August 27, 2005, at the Jax Brewery complex in the French Quarter of New Orleans. The attraction was closed early on the grand opening day due to Hurricane Katrina. We re-opened the attraction in February 2006 and closed it again in September 2006 because of market conditions in New Orleans. Odyssey received approximately \$1.2 million in the fourth quarter 2006 as final insurance settlement on our claim for damages and business interruption due to the hurricane. As a result of our lease termination in New Orleans, we accelerated the estimated useful lives of certain assets and leasehold improvements in 2006. This acceleration resulted in additional expenses of \$.9 million as of December 31, 2006. While the attraction is presently closed, we plan to relocate it to another market in 2007 and continue to research alternatives. We suspended completion of our second 5,000 square foot traveling exhibit attraction, which was approximately 75% complete, until we relocate our existing attraction.

A summary of our net revenues, income from operations and assets for our segments is found in Note S to the Consolidated Financial Statements in Item 8.

## **Shipwreck Project Criteria**

Our marine research department continuously conducts research in an attempt to identify shipwreck projects that meet the following criteria:

The shipwreck must be in deep water, thereby minimizing the possibility that it has been broken up and covered by shifting sands or the target of previous recovery efforts.

The research must indicate that the shipwreck was carrying enough intrinsically valuable cargo to pay for the high cost associated with deep-ocean archaeological recovery, and to provide an attractive return for our investors and stockholders.

The research must provide good navigational information concerning the sinking location in order to minimize the search area and provide a reasonable expectation that the wreck can be found.

The issues relating to ownership of the shipwreck and its cargo must be resolved or reasonably predictable prior to beginning any recovery in order to minimize the potential for litigation.

The United Nations Educational Scientific and Cultural Organization, or UNESCO, has estimated that there are up to 3,000,000 shipwrecks contained within the oceans of the world. Historical records suggest that many were lost with verifiable cargoes of intrinsically valuable material.

## **Technology**

Odyssey is a pioneer in the use of advanced deep-ocean technology for shipwreck exploration. We are not, for the most part, inventors of the technologies required for deep ocean search and recovery. We use technologies that others, primarily the military, oil industry, and telecommunications industry, have developed at great expense.

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We have learned how to apply these technologies specifically to locate shipwrecks and to conduct precise archaeological recoveries at depths of 100 to 2,000 meters. Although we tend to use off the shelf technology because it is cost effective, we do have several proprietary software and equipment applications that maximize the effectiveness of our search and recovery systems. Software that precisely documents the archaeological excavation and advanced sediment removal and filtration systems are two examples of our technological innovations.

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### **Equipment**

Most of our projects are conducted in two phases. The search phase is conducted from a vessel outfitted with survey equipment and an inspection ROV. The recovery phase requires a vessel equipped with a work-class ROV, sophisticated positioning systems, and certain Odyssey technology and proprietary software, which allows us to record the recovery in an archaeologically sound manner.

In 2003, we purchased the 113-foot search and survey vessel RV *Odyssey* and equipped it with sophisticated search and identification equipment. That ship and search team successfully concluded the SS *Republic*® (the SS *Republic* is a registered trademark of Odyssey Marine Exploration, Inc.) search operation with discovery of the shipwreck in August 2003. Prior to 2005, the RV *Odyssey* was our primary search vessel for coastal projects. The RV *Odyssey* was sold in 2006.

During 2003, we purchased a 251-foot dynamically-positioned ship named *Odyssey Explorer* and a 2,500 meter 200-HP work-class ROV that we nicknamed *ZEUS*. Coupled with a sophisticated suite of cameras, lighting and positioning equipment, as well as advanced computer monitoring and proprietary data management systems, *ZEUS* provides us the ability to perform extensive archaeological excavation work to depths of 2,000 meters. The *Odyssey Explorer* and *ZEUS* were mobilized and deployed to the SS *Republic* site in October 2003, where they conducted the archaeological excavation of the SS *Republic* shipwreck site and recovered over 51,000 gold and silver coins and approximately 14,000 other artifacts.

During early 2005, we acquired a new side-scan sonar system which allows us to map the seafloor approximately twice as fast as with our previous search system. Also during 2005, we entered into a charter agreement for a search vessel which we used during 2005 and 2006 search operations in our Atlas project area.

In June 2006, we purchased an additional ship similar in size to the *Odyssey Explorer*. This ship has been fitted with a complete suite of advanced search gear including Odyssey's newest and most advanced side-scan sonar system. The ship is being utilized for conducting search operations and preliminary Remotely Operated Vehicle (ROV) survey operations on potential targets.

In June 2006, we purchased a second work-class Remotely Operated Vehicle (ROV) capable of conducting deep-ocean archaeological excavation and recovery work on the Company's shipwreck projects. The new ROV, *ZEUS II*, is a 9-ton, advanced underwater robotic system capable of working on sites up to 2,000 meters deep, and at 400 HP, it has twice the power of *ZEUS*, making it one of the world's most powerful deep ocean work platforms. *ZEUS II* provides us with a second highly specialized underwater robotic system to expand our capabilities for archaeological excavation and recovery. Adding a second next generation *ZEUS* with more than twice as much power will allow us to seamlessly interchange our archaeologists and technicians between both systems while expanding our operational capacity.

### **Active Operational Projects**

In the past, we have from time to time disclosed information concerning each of our existing and planned search operations. In order to protect the identities of the targets of our planned search operations, we have decided to defer disclosing specific information relating to our search targets until we have located the targeted shipwreck or shipwrecks and determined a course of action to protect our property rights.

#### ***SS Republic Project***

The SS *Republic* was a side-wheel steamer lost in deep water in 1865 after battling a hurricane for several days. The ship, en-route from New York to New Orleans, was reportedly carrying \$400,000 in specie (1865 face value) when it sank. The ship's history includes service in both the Confederate and Union navies during the American Civil War.

We discovered the shipwreck in the summer of 2003 nearly 1,700 feet below the surface of the Atlantic Ocean approximately 100 miles off the Georgia coast. In March 2004, Odyssey was awarded title and ownership to the SS *Republic* shipwreck and cargo, including the hull, artifacts and the specie on board when she sank.

Odyssey completed the pre-disturbance survey work on the SS *Republic* shipwreck site in October 2003. Over 4,600 digital still photographs were taken over the course of 23 dives. The detailed photomosaic produced a high-resolution image of the shipwreck site and debris field. This served as a map to help the Odyssey team determine excavation priorities and can be used in later study and documentation of the SS *Republic*. Shortly after commencement of archaeological excavation of the site, a substantial number of gold and silver coins were revealed using Odyssey's Sediment Removal and Filtration, or SeRF, system.





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In late 2003, when it appeared that all the coins might have been located in one small area, we anticipated recovering them all within 60 days. We recovered significantly more coins than were expected because many of them were smaller denomination silver half dollar coins. The coin recovery was efficient, allowing for recovery of up to 2,000 coins or more per day, even though they were picked up one at a time. The necessity of excavating the entire shipwreck site in an attempt to locate the balance of the coins, which our research suggests should still be there, required a significantly longer timeframe for the site excavation.

The archaeological excavation and recovery was completed in February 2005. During the *SS Republic* excavation, more than 51,000 gold and silver coins and approximately 14,000 artifacts were recovered. Our ROV *ZEUS* completed 262 dives to the shipwreck site and debris field, logging almost 3,500 hours of bottom time. The coins recovered to date represent approximately 25 percent of the \$400,000 in specie (1865 face value) that historical research indicates was on board the *Republic* when she sank. We have been declared the owners of the wreck and there is a federal injunction in place preventing others from disturbing the site.

Coins recovered from the *SS Republic* have been divided into two categories. The first category, our numismatic collection, consists of coins that are indistinguishable from coins that have never been underwater. These have been priced to correlate with their numismatic value. The second category includes ungraded shipwreck coins ( shipwreck effect ) that have been conserved and encased in a certified tamper-resistant holder by Numismatic Conservation Services, or NCS, and Numismatic Guaranty Corporation, or NGC.

To-date we have sold approximately \$33 million gross revenue worth of *SS Republic* coins representing approximately 11,000 silver and 3,000 gold coins. As of December 31, 2006, we have a remaining inventory of approximately 800 gold coins and 36,000 silver coins. Of our remaining gold coin inventory, the majority of which are \$10 Eagles which are not in as much demand by numismatic collectors as the higher-value numismatic \$20 Double Eagles which have been predominantly sold.

There are no Revenue Participation Certificates or revenue sharing arrangements related to the *SS Republic* recovery.

### ***Western Mediterranean Project***

In April 2005, the Odyssey Explorer performed survey and archaeological work in the western Mediterranean. We located 23 shipwreck sites, produced 14 pre-disturbance photomosaics, and completed preliminary excavations on seven sites. The archaeological work resulted in the recovery of approximately 400 artifacts plus a substantial number of trading beads currently undergoing conservation and study by Odyssey's research department. Odyssey has performed additional work on potential high-value shipwreck projects in the Mediterranean area on its winter/spring 2007 operations schedule.

### ***Atlas Search Project***

The Atlas project is believed to be the most extensive shipwreck search operation ever launched. A minimum of five high-value shipwrecks are believed to be in the search area, which encompasses more than 5,000 square miles. Odyssey began search operations during the 2005 season and resumed operations in April 2006. During the 2006 season, work was concentrated in the seven search block areas which encompass the Atlas target of highest value, code-named Tripoli. During 2005, much of the area was searched with high-resolution side-scan sonar. During 2006, a second pass was completed which included acoustic and magnetometer data-streams which helped Odyssey create a larger database of information. Overlaying all three layers provided an extremely precise, high-resolution map of the seven search blocks.

Once targets of interest were logged, additional high-resolution imagery and magnetometer surveys were utilized to further classify and map targets before ROVs were deployed to visually inspect and recover any artifacts deemed necessary for identification. During the entire 2006 survey period, at least two ships were mobilized to engage in this search operation, and during part of the summer, three ships were utilized.

Following is a summary of the operations conducted in the Atlas/Tripoli search area:

Anomalies detected: 1,873

Anomalies selected for further inspections: 1,017

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Anomalies remaining to be inspected with an ROV: 9

Shipwrecks located: 161

Modern/20th Century Shipwrecks: 124

19th Century Shipwrecks: 25

17th - 18th Century Shipwrecks: 12

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Odyssey filed an Admiralty arrest in the U.S. District Court for the Middle District of Florida in September 2006. On October 30, 2006, the U.S. District Court granted the Company's Motion for Preliminary Injunction appointing Odyssey as the exclusive finder-in-possession of the shipwrecked vessel, and prohibiting any interference with Odyssey's intended excavation of the site, which is believed to be the remains of a 17th century merchant vessel located outside the territorial waters of any country. However, until further ROV inspections and a preliminary archaeological excavation are completed on the arrested shipwreck site, we are not prepared to confirm the identity or potential value of the shipwreck.

We intend to continue ROV inspections of the Atlas area beginning in the spring of 2007 when the weather window re-opens. For reasons of security and strategic confidentiality, we do not disclose the location of the Atlas project area.

### ***HMS Sussex Project***

The *Sussex* project is an expedition to locate and recover artifacts and cargo of a large colonial-period British warship, HMS *Sussex*, which was lost in a severe storm in 1694. Based on documentary research conducted by contract researchers and our in-house research team in libraries and historical archives in Great Britain, France and other countries, we believe that there is a high probability the ship was carrying a cargo of coins with a substantial numismatic value. Our analysis of the data was accumulated from a review of ship's logs, court martial records, state papers, treasury books and various other letters and reports. We conducted offshore search operations on this project in 1998, 1999, 2000 and 2001. Based on the results of these search operations, we believe there is a high probability we have located the remains of HMS *Sussex*.

On September 27, 2002, we entered into an agreement with the Government of the United Kingdom of Great Britain and Northern Ireland, which we refer to as Her Majesty's Government (HMG), which allows us to conduct an archaeologically sensitive exploration of the shipwreck believed to be HMS *Sussex* and to recover artifacts from the shipwreck site. The agreement provided for us to submit a Project Plan to HMG concerning the equipment, personnel and methodologies we intend to use in the exploration of the shipwreck, and the conservation and documentation of any artifacts and cargo that may be recovered. This Plan was submitted and was declared fit for purpose during 2004 with the exception of the staffing plan, which could not be completed until the actual start date was agreed upon and the availability of personnel could be determined. The staffing plan was approved during 2005 and we began exploration of the site during December 2005.

In late 2005 and early 2006, Odyssey completed to the satisfaction of the Government of the United Kingdom all work detailed in Phase 1A of the *Sussex* archaeological project plan. The Company has also completed a portion of Phase 1B. (A public version of the project plan is available for viewing at [www.shipwreck.net/sussexpp.html](http://www.shipwreck.net/sussexpp.html).) The Company temporarily halted operations on the project at the request of the Spanish Ministry of Foreign Affairs while issues relative to the archaeological plan for excavation of the site, territorial and cultural resource management issues were negotiated.

In March 2006, Odyssey submitted an archaeological plan to the Spanish Ministry of Foreign Affairs which addressed questions raised by the Government of the Autonomous Region of Andalucia in reference to the ongoing HMS *Sussex* project. As part of this proposed plan, Odyssey agreed with the British Government to undertake additional survey operations in the area and to provide Spain with a detailed assessment of the region's underwater cultural heritage in deep water, as well as assistance in developing a plan for managing and protecting those resources.

In August 2006, additional clarifications and a response to additional questions were provided at a meeting in Seville arranged by the Spanish Ministry of Foreign Affairs with representatives of the Government of Andalucia through the offices of the Embassy of the United Kingdom. As a result of that meeting, the outstanding matters were narrowed to three issues relating to site mapping, positional information and formalization of the submission of the plan through the project archaeologists. Odyssey has been working closely with the offices of the Embassy of the United Kingdom and the United Kingdom's Ministry of Defence to address these final three Andalucian issues.

A diplomatic note has been issued by the Kingdom of Spain and acknowledged by the UK Government which sets forth the terms of the arrangement under which the UK Government, Odyssey, the Kingdom of Spain and the Junta of Andalucía intend to cooperate in the next phases of archaeological investigation of the site believed to be HMS *Sussex*. Pursuant to the diplomatic notes, Odyssey has consented to allow archaeologists designated by the Junta of Andalucía to join the expedition. In addition, regular reports will be furnished to the Junta detailing all activities that take place during the course of operations.

Throughout the duration of this complicated multi-national situation, the Spanish Ministry of Foreign Affairs, the United Kingdom Foreign and Commonwealth Office and Ministry of Defence, the United States Department of State and representatives of the Autonomous Region of Andalucia have all contributed resources and attention to solving the issues relating to the *Sussex* project. While it has taken longer to resolve these issues than anticipated, we believe that the results will translate to goodwill between all the parties and serve to provide a platform for future cooperation in underwater exploration and management of deep ocean cultural heritage.



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We understand the geographic and political sensitivities surrounding this project and are willing to go to great efforts to show our willingness to work in a cooperative fashion with all governments involved.

As a Sovereign warship, the HMS *Sussex* remains the property of the Government of the United Kingdom which has not been contested by the Spanish government or other entities to our knowledge. As part of the partnering agreement signed between Odyssey and HMG in 2002, the following sharing arrangements have been agreed upon with respect to the aggregate amount of the appraised values and/or selling prices of the artifacts, net of agreed selling expenses:

| Range                         | British Government | Odyssey |
|-------------------------------|--------------------|---------|
| \$0 - \$45 million            | 20%                | 80%     |
| \$45 million to \$500 million | 50%                | 50%     |
| Above \$500 million           | 60%                | 40%     |

In addition to the percentages specified above, we will also pay the British Government 10% of any net income we derive from intellectual property rights associated with the project.

Also, we received the exclusive worldwide right to use the name *HMS Sussex* in connection with sales and marketing of merchandise (exclusive of artifacts) related to the shipwreck, and the British Government will receive 3 percent of the gross sales of such merchandise.

Our agreement with the British Government is for a period of 20 years, and can only be terminated if:

the shipwreck is not *HMS Sussex*;

we are in serious breach of our obligations under our agreement with the British Government.

The shipwreck that we believe is the *HMS Sussex* is located in the search area for a project that we have previously referred to as our Cambridge project. We sold through private placements of Revenue Participation Certificates, or RPCs, the right to share in our future revenues derived from the Cambridge Project. As of April 30, 1999, when the offering was closed, we had sold \$825,000 of the RPCs. As a group, the holders are entitled to 100 percent of the first \$825,000 of gross revenue, 24.75 percent of gross revenue from \$4 million to \$35 million, and 12.375 percent of gross revenue above \$35 million generated by the Cambridge project. Additionally, on May 26, 1998, we signed an agreement with a subcontractor that entitled it to receive 5 percent of the post-finance cost proceeds from any shipwrecks in a certain search area of the Mediterranean Sea. The shipwreck we believe is the *HMS Sussex* is located within the specified search area, and we will be responsible to share future revenues, if any, from this shipwreck with the subcontractor. The subcontractor's rights were foreclosed upon during 2002 and the purchaser was a limited liability company which was partially owned by two of our officers and directors. In order to remove any potential conflicts of interest, these two persons sold their interests in the limited liability company during 2005.

**Sales and Marketing**

The recovery of coins and artifacts from the *SS Republic* required us to create a marketing plan specifically to sell these coins and artifacts. Initially, silver coins were wholesaled to independent coin dealers who sold them through direct marketing and television outlets. During May 2004, we began to sell gold coins to the same independent dealers. These dealers provided an immediate outlet for our coins and enabled us to generate revenue during 2004. In December 2004, we opened a direct sales department to test distribution of our products through retail sales channels where gross margins would typically be higher.

During the ten months ended December 31, 2004, our primary customers for the sale of gold and silver coins were thirteen independent coin dealers. Of these customers, four were responsible for sales volumes constituting 64 percent of total sales. These four coin dealers were Spectrum Numismatic, Monaco Financial, Silver Towne LP, and Kevin Lipton Rare Coins. During the twelve months ended December 31, 2005, we continued to sell gold and silver coins to our independent coin dealers. However, the number of independent dealers dropped from thirteen in 2004 to six in 2005 of which two dealers represented 56 percent of total sales. These two dealers were Monaco Financial and Spectrum Numismatic. Our experience has shown that many of these independent dealers are primarily interested in the higher quality numismatic coin market. In 2006, we sold through three independent dealers of which two represented 65% of total sales. These two dealers were Asset Marketing Services (AMS) and Spectrum Numismatic. We currently have a contractual arrangement with AMS for the sale and

distribution of our collectible silver coins and artifacts.

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While we continue to sell numismatic coins to independent coin dealers, there has been a significant shift beginning in 2006 to our direct marketing sales efforts. Direct sales efforts (inbound and outbound call center and related infrastructure) were outsourced beginning in the second quarter 2006 to an experienced direct marketing partner. The majority of our coin sales in 2006 were silver coins sold through our direct marketing partner. We have been extremely pleased with the marketing programs and sales efforts of our direct marketing partner where our focus is selling our silver coin inventory directly to consumers at higher unit prices than we were receiving through our indirect wholesale channels. Another benefit of this outsourcing is a significant reduction of our overhead costs associated with our direct sales organization. We have begun to test a variety of advertising methods and mediums some of which are beginning to show great promise and a positive return on our investment. We intend to increase our investment in 2007 for advertising programs that are demonstrating positive sales results with coins as well as bottles and other artifacts.

We continue to develop additional indirect sales channels to supplement our coin dealer network for non-graded gold, shipwreck-effect silver coins, shipwreck artifacts, and other merchandise. While significant revenue has not yet been realized from these new indirect sales channels, we are building additional distribution channels for Odyssey shipwreck products.

The availability of raw materials is primarily dependent on the success of finding intrinsically valuable cargoes from shipwrecks (see Item 1A. Risk Factors). We recovered over 51,000 coins (approximately 4,000 \$10 and \$20 gold coins and 47,000 silver halves) and approximately 14,000 non-coin artifacts from the *SS Republic*. As of December 31, 2006, we have a remaining inventory of approximately 800 graded and un-graded gold coins and 36,000 silver coins.

## **Archaeology and Science**

Many of the shipwrecks we intend to pursue may have important historical and cultural characteristics. Every such project undertaken will be subject to stringent archaeological standards, thus adding to the body of knowledge of the people, the history and culture of the vessel's time. We believe adherence to these principles will increase the economic value of the artifacts and intellectual property rights of each project as well as enhance the level of cooperation we receive from governments, archaeological and other interests.

In addition, many deep-ocean recovery expeditions will lend themselves to interdisciplinary scientific studies including oceanography, marine biology, environmental research, bioengineering and other fields.

## **Legal and Political Issues**

Odyssey works with a number of leading international maritime lawyers and policy experts to constantly monitor international legal initiatives that might affect our projects. As a matter of policy, we begin with the assumption that some entity, whether a government, private concern or insurance company, may have some rights to shipwrecks that are slated for search and recovery operations. Based on this assumption, a rigorous legal analysis is undertaken in order to ascertain which entities might be able to create roadblocks to a successful project. In some cases, such as that of HMS *Sussex*, it was determined that the most prudent mechanism for moving forward was to negotiate a contract with the owner of the vessel in order to manage litigation risk.

In other cases, such as the *SS Republic* project, we entered into an agreement whereby we purchased the insurance company's interest in the shipwreck and cargo, opening the way for an immediate grant of title to Odyssey by the federal court that had jurisdiction.

To the extent that we engage in shipwreck search and recovery activities in the territorial, contiguous or exclusive economic zones of countries, Odyssey intends to comply with verifiable applicable regulations and treaties. Prior to beginning operations for any project, the legal and political aspects are carefully researched to ascertain what effect these issues may have on the potential success of the operation.

These factors are taken into account in determining whether to proceed with a project as planned. Other factors, such as the UNESCO Convention for the Protection of Underwater Cultural Heritage are also taken into consideration. New political initiatives such as this Convention could restrict access to historical shipwrecks throughout the world to the extent they might require compliance with cultural resource management guidelines and regulations. Some of these will require adherence to strict archaeological practices and we intend to follow reasonable guidelines in all projects to which they are applicable. Greg Stemm, Odyssey's co-founder, was a member of the United States delegation that negotiated the UNESCO Convention, and as such provides us with a thorough understanding of the underlying principles and ramifications of the Convention, and advance notice of other cultural resource management issues that might affect our projects.

The UNESCO Convention is not expected to impact operations in international waters, and the United States, the United Kingdom and other major maritime governments have already stated explicitly that they do not intend to sign the Convention. Nevertheless, some countries in whose waters we may work may sign the Convention. While the UNESCO Convention states that





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artifacts may not be sold, it also states that this prohibition may not prevent the provision of archaeological services, and we intend to provide such services in contracts with governments. We believe the primary value of the cargoes we seek are trade goods (such as coins, bullion and gems), which are not artifacts of historical, archaeological or cultural significance and as such should not be subject to the rule prohibiting sale.

We believe there will be increased interest in the protection of underwater cultural heritage throughout the oceans of the world. We are uniquely qualified to provide governments and international agencies with resources to help manage these resources while providing the public with educational, scientific, historical and entertainment initiatives that originate from our shipwreck exploration activities.

## **Competition**

There are a number of companies who publicly identify themselves as engaged in aspects of the shipwreck business, but they do not compete directly with us as an established deep-ocean archeological shipwreck exploration company. These entities include, but are not limited to, Subsea Resources Ltd. (a UK Company), Sovereign Exploration Associates International Inc. and Admiralty Holding Company. It is possible that some currently unknown group may locate and recover a shipwreck on our project roster; however, due to the breadth of our historical and archival research, the already completed sonar and deep-water ROV inspection efforts, and the number of shipwreck projects in various stages of development, we do not believe that competition from one or more of these entities, known or unknown, would materially impact our operating plan or alter our current business strategy.

## **Cost of Environmental Compliance**

With the exception of vessel operations and conservation activities, our general business operations do not expose us to environmental risks or hazards. We carry insurance that provides a layer of protection in the event of an environmental exposure resulting from the operation of our vessels. The cost of such coverage is minimal on an annual basis. We believe the risk associated with our conservation activities is minimal.

## **Executive Officers of the Registrant**

John C. Morris (age 57) served as President and CEO from May 1994 until November 2005 when he resigned as President and CEO due to the effects of cancer treatment. He has served as Chairman of the Board of Directors since May 1994 and as Co-Chairman since February 24, 2006. Mr. Morris' medical condition improved and he returned to the CEO position on July 1, 2006.

Gregory P. Stemm (age 49) has served as Vice President, Research and Operations and as a member of the Board of Directors since May 1994. He has served as Co-Chairman since February 24, 2006.

George Becker Jr. (age 72) joined Odyssey as Chief Operating Officer during April 2002, and became Executive Vice President in June 2004. He also serves as President of Odyssey Marine Entertainment, Inc. a wholly owned subsidiary which was formed in February 2005.

Michael J. Holmes (age 57) joined Odyssey as Controller in March 2004, and became Chief Financial Officer in May 2004. Mr. Holmes had previously served in a variety of financial management positions with Anheuser-Busch Companies, Inc. to include Vice President Finance, Sea World Orlando (1998-2003).

David A. Morris (age 56) has served as Secretary and Treasurer since August 1997.

Davis D. Howe (age 48) joined Odyssey as Chief Operating Officer in July 2004. Mr. Howe had previously held senior management positions at several major public companies including Senior Vice President of Operations at Intermedia (2000-2001).

Jay A. Nudi (age 43) joined Odyssey as Controller in May 2005. Mr. Nudi has served as Principal Accounting Officer since January 2006. Prior to joining Odyssey, Mr. Nudi served as Controller for The Axis Group in Atlanta (2003-2004). Previously he served as a consultant to various companies on specific value added tasks (2001-2003).

Mark D. Gordon (age 46) joined Odyssey as Director of Business Development in June 2005. Mr. Gordon has served as Executive Vice President of Sales and Business Development since January 2007. Mr. Gordon is also responsible for the attraction segment which includes Odyssey Marine Entertainment, Inc. Prior to joining Odyssey, Mr. Gordon owned and managed four different start-up ventures (1987-2003).

## **Employees**

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As of December 31, 2006, we have 57 full-time employees, most working from our corporate offices in Tampa, Florida. Additionally, we contract crewmen who operate our two vessels and technicians who perform marine survey and recovery operations on our vessels. In addition, we hire subcontractors and consultants from time to time to perform specific services.

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### **Internet Access**

Odyssey's Forms 10-K, 10-Q, 8-K and all amendments to those reports are available without charge through Odyssey's web site on the Internet as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. They may be accessed as follows: [www.shipwreck.net](http://www.shipwreck.net) (SEC Filings Link).

### **ITEM 1A. RISK FACTORS**

One should carefully consider the following factors, in addition to the other information in this Annual Report on Form 10-K, in evaluating our company and our business. Our business, operations and financial condition are subject to various risks. Some of these risks are described below, and should be carefully considered in evaluating Odyssey or any investment decision relating to our securities. This section does not describe all risks applicable to Odyssey, its industry or its business. It is intended only as a summary of the principal risks.

#### ***Our business involves a high degree of risk.***

An investment in Odyssey is extremely speculative and of exceptionally high risk. Although we have access to a substantial amount of research and data which has been compiled regarding various projects, the quality and reliability of such research and data is uncertain. Even if we are able to plan and obtain permits for our various projects, there is a possibility that the shipwrecks may have already been salvaged or may not be found, or may not have had anything valuable on board at the time of the sinking. Even if objects of value are located and recovered, there is the possibility that the cost of recovery exceeds the value of the objects recovered or that others, including both private parties and governmental entities, will assert conflicting claims and challenge our rights to the recovered objects. Finally, even if we are successful in locating and retrieving objects from a shipwreck and establishing good title to them, there are no assurances as to the value that such objects will bring at their sale, as the market for such objects is uncertain.

#### ***The research and data we use may not be reliable.***

The success of a shipwreck project is dependent to a substantial degree upon the research and data we have obtained. By its very nature, research and data regarding shipwrecks is imprecise, incomplete and unreliable. It is often composed of or affected by numerous assumptions, rumors, legends, historical and scientific inaccuracies and inaccurate interpretations which have become a part of such research and data over time.

#### ***Availability of raw materials may be limited.***

The availability of inventory is primarily dependent on the success of finding raw materials in the form of intrinsically valuable cargoes from shipwrecks. If we are not successful in the exploration and recovery of shipwrecks, we would not have sufficient inventory to sell.

#### ***Operations may be affected by natural hazards.***

Underwater recovery operations are inherently difficult and dangerous and may be delayed or suspended by weather, sea conditions or other natural hazards. Further, such operations may be undertaken more safely during certain months of the year than others. We cannot guarantee that we, or the entities we are affiliated with, will be able to conduct search and recovery operations only during favorable periods. In addition, even though sea conditions in a particular search location may be somewhat predictable, the possibility exists that unexpected conditions may occur and adversely affect our operations. It is also possible that natural hazards may prevent or significantly delay search and recovery operations or the ability to operate our themed attractions.

#### ***We may be unable to establish our rights to any objects we recover.***

Persons and entities other than Odyssey and entities we are affiliated with (both private and governmental) may claim title to the shipwrecks. Even if we are successful in locating and recovering shipwrecks, we cannot assure we will be able to establish our right to property recovered against governmental entities, prior owners, or other attempted salvors claiming an interest therein. In such an event, we could spend a great deal of money and receive no revenue for our work.

#### ***The market for any objects we recover is uncertain.***

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Even if valuable items can be located and recovered in the future, it is difficult to predict the price that might be realized for such items. The value of recovered items will fluctuate with the precious metals market, which has been highly volatile in past years. In addition, the entrance on the market of a large supply of similar items from shipwrecks located and recovered by others could depress the market.

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### ***We could experience delays in the disposition or sale of recovered objects.***

The methods and channels that may be used in the disposition or sale of recovered items are uncertain at present and may include several alternatives. Ready access to buyers for any artifacts or other valuable items recovered cannot be assured. Delays in the disposition of such items could adversely affect our cash flow.

### ***Legal, political or civil issues could interfere with our recovery operations.***

Legal, political or civil initiatives of countries and/or major maritime governments could restrict access to shipwrecks or interfere with our search and recovery operations.

### ***Objects we recover could be stolen from us.***

If we locate a shipwreck and assert a valid claim to items of value, there is a risk of theft of such items at sea, both before and after their recovery, by pirates or poachers and while in transit to a safe destination. Such thefts may not be adequately covered by insurance.

### ***We face competition from others.***

There are a number of competing entities engaged in various aspects of the shipwreck business, and in the future other competitors may emerge. One or more of these competing entities may locate and recover a shipwreck that we intend to locate and recover. In addition, these competing entities may be better capitalized and may have greater resources to devote to their pursuit of the shipwreck.

### ***We may be unable to get permission to conduct salvage operations.***

It is possible we will not be successful in obtaining title, or permission to excavate certain wrecks. In addition, permits that are sought for the projects may never be issued, and if issued, may not be legal or honored by the entities that issued them.

### ***Profitability of our themed attractions segment may be adversely affected by a number of factors.***

As we continue to develop and open themed attractions, there are several factors which could negatively affect our profitability including site selection, attendance projections, and economic activity. While we perform extensive market research on potential site locations, our attendance projections for those locations may not materialize in sufficient numbers to assure profitability. Also, a decline in national and/or regional economic conditions could reduce attendance and spending at our themed attractions. In addition, our themed attractions will compete against other forms of entertainment available in the area, and attendance may be subject to seasonal variations.

### ***Changes in our business strategy or restructuring of our businesses may increase our costs or otherwise affect the profitability of our businesses.***

As changes in our business environment occur we may need to adjust our business strategies to meet these changes or we may otherwise find it necessary to restructure our operations or particular businesses or assets. When these changes or events occur, we may incur costs to change our business strategy and may need to write down the value of assets. In any of these events, our costs may increase, and we may have significant charges associated with the write-down of assets.

### ***We may be unsuccessful in raising the necessary capital to fund operations and capital expenditures.***

Our ability to generate cash flow is dependent upon the success of our ability to recover and monetize high-value shipwrecks. However, we cannot guarantee that the sales of our products and other available cash sources will generate sufficient cash flow to meet our overall cash requirements. If cash flow is not sufficient to meet our business requirements, we will be required to raise additional capital through other financing activities. While we have been successful in raising the necessary funds in the past, there can be no assurance we can continue to do so.

### ***Financial covenants in our existing notes payable and revolving credit facility may restrict our operating activities or harm our financial condition.***

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Our existing notes payable and revolving credit facility contains certain financial and operating covenants, including net worth requirements and other debt limitations, which may restrict our operating activities. Failure to comply with any of the loan covenants could result in a default. This could cause our lender to accelerate the timing of our payment obligations and could harm our business, operations, financial condition or liquidity.

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### ***We depend on key employees and face competition in hiring and retaining qualified employees.***

Our employees are vital to our success, and our key management and other employees are difficult to replace. We currently do not have employment contracts with our key employees. Further, we do not maintain key person life insurance on any of our employees. We may not be able to retain highly qualified employees in the future which could adversely affect our business.

### ***Our articles of incorporation authorize generic preferred stock.***

Our articles of incorporation authorize the issuance of up to 10,000,000 shares of preferred stock. Our board of directors has the right to establish the terms, preference, rights and restrictions of the preferred stock. Such preferred stock could be issued with terms, rights, preferences and restrictions that could discourage other persons from attempting to acquire control and thereby insulate incumbent management. In certain circumstances, the existence of corporate devices that would inhibit or discourage takeover attempts could have a negative effect on the market value of our common stock.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We maintain our offices at 5215 W. Laurel Street, Tampa, Florida 33607. We purchased the 23,500 square foot two story office building in 2004 for \$3,058,770 to serve as our corporate and operations headquarters. We currently lease approximately 38 percent of the space to two tenants. In April 2005, we entered into a three-year lease for a one story 8,100 square foot commercial building in proximity to our corporate headquarters which is utilized by our conservation, research and archaeology departments.

In June 2005, we entered into a Lease Agreement with Jackson Brewery Millhouse, LLC, New Orleans, Louisiana, for the space where the Company opened its first interactive shipwreck and treasure attraction. The space is located in the Jax Brewery in the French Quarter of New Orleans. We exercised our right to terminate the lease after 18 months and subsequently entered into a month- to-month extension until we can relocate the attraction to another market.

## **ITEM 3. LEGAL PROCEEDINGS**

On or about December 14, 2004 a complaint was filed against seven defendants including the Company in the Court of Common Pleas in the Ninth Judicial Circuit, County of Charleston, in the State of South Carolina. The complaint was filed by Republic & Eagle Associates, Inc. and Sea Miners, Inc. against John Morris, Greg Stemm, John Lawrence, John Balch, Daniel Bagley, Seahawk Deep Sea Technologies, Inc. ( Seahawk ) and the Company. The plaintiffs' allegations include breach of fiduciary duty, civil conspiracy and breach of contract based primarily upon an alleged contract(s) between the plaintiffs and Seahawk dated May 16, 1995 dealing with the search for the SS *Republic*. The plaintiffs allege that their research which was provided to Seahawk led to the discovery of the SS *Republic* and they seek an unspecified amount of damages and public recognition of their contribution. On February 18, 2005, John Morris, Greg Stemm, Daniel Bagley, and the Company filed their Notice of Motion and Motion to Dismiss Defendants John Morris, Greg Stemm, Daniel Bagley and Odyssey Marine Exploration, Inc. (the Motion ). In the Motion, the defendants allege that the complaint should be dismissed because, among other things, the South Carolina court does not have jurisdiction over them, the action was filed in an improper venue, plaintiffs lack the capacity to maintain the action, and the action should be barred based on the Doctrine of Forum Non Conveniens. The court granted the Motion and dismissed the case for lack of personal jurisdiction on June 9, 2006. The plaintiffs subsequently filed a Motion for Rehearing, and after further argument on the issues, the judge reversed his decision and entered an order denying the defendants' motion to dismiss on February 27, 2007. The defendants filed a Motion to Re-consider the order granting the plaintiffs' motion for reconsideration and denying defendants' motion to dismiss on March 12, 2007. Management believes the lawsuit is without merit and intends to vigorously defend the action.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS**

None.





**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Performance Graph**

*This performance graph shall not be deemed filed with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act of 1933, as amended.*

Assuming an investment of \$100 on December 31, 2001, and reinvestment of all dividends, the graph below compares the cumulative total stockholder return on the Company's Common Stock for the last five fiscal years with the cumulative return of the Standard & Poor's 500 Market Index and the Russell 2000 Market Index.

**COMPARISON OF FIVE-YEAR TOTAL RETURN AMONG ODYSSEY,  
S&P 500 STOCK INDEX AND RUSSELL 2000 STOCK INDEX**

| Total Return Analysis                   | 12/31/2001       | 12/31/2002       | 12/31/2003       | 12/31/2004       | 12/31/2005       | 12/31/2006       |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Odyssey Marine Exploration, Inc.</b> | <b>\$ 100.00</b> | <b>\$ 174.29</b> | <b>\$ 714.29</b> | <b>\$ 357.14</b> | <b>\$ 505.71</b> | <b>\$ 417.14</b> |
| <b>S&amp;P 500 Index</b>                | <b>\$ 100.00</b> | <b>\$ 77.95</b>  | <b>\$ 100.27</b> | <b>\$ 111.15</b> | <b>\$ 116.60</b> | <b>\$ 134.87</b> |
| <b>Russell 2000 Index</b>               | <b>\$ 100.00</b> | <b>\$ 78.42</b>  | <b>\$ 114.00</b> | <b>\$ 133.38</b> | <b>\$ 137.81</b> | <b>\$ 161.24</b> |

**Table of Contents****Price Range of Common Stock**

On November 19, 2003, our stock was listed on the American Stock Exchange and is traded under the symbol OMR. The following table sets forth the high and low sale prices for our securities during each quarter or interim reporting period for the periods set forth in the following schedule.

| <b>Quarter Ended</b> | <b>Price</b> |            |
|----------------------|--------------|------------|
|                      | <b>High</b>  | <b>Low</b> |
| March 31, 2005       | \$ 3.96      | \$ 2.00    |
| June 30, 2005        | \$ 5.38      | \$ 3.20    |
| September 30, 2005   | \$ 5.64      | \$ 3.47    |
| December 31, 2005    | \$ 4.32      | \$ 2.49    |
| <b>Quarter Ended</b> |              |            |
| March 31, 2006       | \$ 4.18      | \$ 3.06    |
| June 30, 2006        | \$ 3.94      | \$ 1.52    |
| September 30, 2006   | \$ 2.94      | \$ 1.97    |
| December 31, 2006    | \$ 3.49      | \$ 2.44    |

**Approximate Number of Holder of Common Stock**

The number of record holders of our \$.0001 par value Common Stock at February 28, 2007 was 333. This does not include shareholders that hold their stock in accounts in street name with broker/dealers.

**Dividends**

Holders of the Common Stock are entitled to receive such dividends as may be declared by our Board of Directors. No dividends have been declared with respect to our Common or Preferred Stock and none are anticipated in the foreseeable future.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth selected financial data, which should be read in conjunction with the Company's financial statements and the related notes to those statements included in Item 8. Financial Statements and Supplementary Data and with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Form 10-K. The selected financial data has been derived from the Company's audited financial statements.

The following table includes fiscal years 2002 and 2003, which represent twelve-month periods ended February, 2003 and 2004, respectively. The fiscal year ended 2004 was a ten month transition period which ended December 31, 2004. 2005 and 2006 are fiscal years ending on December 31, 2005 and December 31, 2006, respectively.

| <b>\$ in thousands except per share amounts</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Results of Operations</b>                    |             |             |             |             |             |
| Operating revenues                              | \$ 5,064    | \$ 10,037   | \$ 17,622   | \$ 74       | \$          |
| Net income (loss)                               | (19,088)    | (14,920)    | 5,229       | 567         | (2,593)     |
| Earnings per share - basic                      | (0.41)      | (0.35)      | 0.14        | 0.02        | (0.09)      |
| Earnings per share - diluted                    | (0.41)      | (0.35)      | 0.13        | 0.02        | (0.09)      |
| Cash dividends per share                        |             |             |             |             |             |
| <b>Financial Position</b>                       |             |             |             |             |             |
| Assets  | \$ 27,208   | \$ 30,190   | \$ 27,921   | \$ 17,894   | \$ 1,882    |
| Long term obligations                           | 3,053       | 1,758       | 1,858       |             |             |

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|                             |        |        |        |        |     |
|-----------------------------|--------|--------|--------|--------|-----|
| <u>Shareholder's equity</u> | 17,366 | 24,886 | 22,366 | 15,856 | 802 |
|-----------------------------|--------|--------|--------|--------|-----|

2003 net income includes \$5,762,103 income tax benefit which resulted due to elimination of valuation allowance against the deferred tax asset

2005 net income includes \$3,281,510 income tax expense which resulted due to recording a valuation allowance against the deferred tax asset. The effect of recording the valuation allowance increased the net loss by \$7,791,859.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. The discussion should be read in conjunction with our consolidated financial statements and notes thereto. A description of our business is discussed in Item 1 of this report which contains an overview of our business as well as the status of our ongoing project operations.

**Results of Operations**

The dollar values discussed in the following tables, except as otherwise indicated, are approximations to the nearest \$100,000. For more detail refer to the Financial Statements and Supplemental Data in Item 8. The tables identify years 2006, 2005 and 2004. For 2006 and 2005, the fiscal year included a twelve month period which ended December 31st. Fiscal year 2004 included a ten month transition period which ended December 31, 2004.

**2006 Compared to 2005**

| (dollars in millions)                | 2006    | 2005    | 2006 vs 2005 |       |
|--------------------------------------|---------|---------|--------------|-------|
|                                      |         |         | \$           | %     |
| Revenue                              | \$ 5.1  | \$ 10.0 | \$ (4.9)     | (50)% |
| Cost of sales                        | 1.1     | 1.1     |              |       |
| Operations & research                | 15.0    | 11.3    | 3.7          | 33    |
| Marketing, general, & administrative | 8.7     | 9.3     | (.6)         | (6)   |
| Total cost and expenses              | \$ 24.8 | \$ 21.7 | \$ 3.1       | 14%   |

**Revenue**

Revenues are generated primarily through the sale of gold and silver coins, but also include other artifacts and merchandise. Revenues for 2006 and 2005 were \$5.1 million and \$10.0 million, respectively, representing sales volume of gold and silver coins of approximately 2,700 coins in 2006 and 2,500 coins in 2005. The volume mix of gold and silver coins in 2006 was approximately 17% and 83%, respectively, and in 2005 was 53% and 47%, respectively. While we continue to sell numismatic coins to independent coin dealers, there has been a significant shift beginning in the second quarter 2006 to our direct marketing sales efforts. In 2006, we sold through three independent dealers of which two represented 65% of total sales.

Direct sales efforts (inbound and outbound call center and related infrastructure) were outsourced beginning in the second quarter 2006 to an experienced direct marketing partner. The decrease of \$4.9 million in 2006 is primarily due to a lower availability of high-value numismatic gold coins, sales to fewer independent coin dealers and a shift to a higher volume of lower priced silver coins. The majority of our coin sales in 2006 were silver coins sold through our direct marketing partner. We have been extremely pleased with the marketing programs and sales efforts of our direct marketing partner where our focus is selling our silver coin inventory directly to consumers at higher unit prices than we were receiving through our indirect wholesale channels. Another benefit of this outsourcing is a significant reduction of our overhead costs associated with our direct sales organization. We are testing a variety of advertising methods and media that are beginning to show great promise. We intend to increase our investment in the advertising programs that are demonstrating positive sales results.

In 2006, we sold a higher volume of total coins, but they represented a greater mix of lower unit price silver coins sold through our direct marketing partner. As of December 31, 2006, we have a remaining inventory of approximately 800 graded and un-graded gold coins and 36,000 silver coins. Of our remaining gold coin inventory, the majority of which are \$10 Eagles which are not as much in demand by numismatic collectors as the higher-value numismatic \$20 Double Eagles. We anticipate the \$10 Eagle gold coin inventory to be sold over time to non-numismatic collectors through our direct marketing partner. Also included in our revenue for 2006 was \$.2 million of admissions and merchandise sales from our themed attractions segment. All of our revenue for 2006 and 2005 is U.S. domestic-based.

**Cost and Expenses**

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Cost of sales consists of shipwreck recovery costs, grading, conservation, packaging, and shipping costs associated with artifact, merchandise and book sales. Cost of sales as a percentage of revenue for 2006 and 2005 was 21 percent and 11 percent, respectively. The higher cost of sales percentage in 2006 is attributable to a higher sales mix of silver versus gold coins.

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Operations and research expenses were \$15.0 million in 2006, compared to \$11.3 million in 2005. Of the \$3.7 million increase in 2006, \$2.8 million was due to our vessel operations primarily associated with the purchase of our search and inspection vessel in June 2006. The remaining \$ .9 million increase in expenses pertains to our themed attraction segment as the closing of our attraction in New Orleans in September 2006 and subsequent lease termination caused an acceleration of the estimated useful lives of certain assets and leasehold improvements.

Marketing, general and administrative expenses were \$8.7 million in 2006 as compared to \$9.3 million in 2005. Of the \$.6 million decrease, \$1.1 million related to reduced sales and marketing expenses primarily due to the closing of our direct sales company-operated call center in May 2006. These expenses were offset by increased share-based compensation costs associated with our annual incentive plan and adoption of FASB 123R in 2006.

**Other Income or Expense**

Other income and expense generally consists of interest income on investments offset by interest expense on our revolving credit facility and equipment loans. For 2006, \$.9 million of other income was recorded due to business interruption insurance proceeds received for our themed attraction in New Orleans related to Hurricane Katrina.

**Income Taxes**

We did not record any provision (benefit) for income taxes in 2006 or 2005. Due to the uncertainty surrounding the realization of deferred tax assets resulting from operating loss carryforwards, we recorded a full valuation allowance of \$14.9 million against the deferred tax assets as of December 31, 2006 compared to \$7.8 million as of December 31, 2005. In accordance with SFAS No. 109, *Accounting for Income Taxes*, 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 realizable without the recovery of high value shipwrecks (such as the HMS *Sussex*) and thus a valuation allowance has been recorded as of December 31, 2006. We anticipate that we will continue to incur net losses in 2007. Our ability to generate net income in future periods is dependent upon the success of our ability to recover and monetize high-value shipwrecks. We continue to be confident that we have several potential high-value shipwreck targets which could be recovered in 2007. Our current estimates do not include monetizing any assets for shipwrecks which may be recovered in 2007 or beyond. We will continue to reassess the need for a valuation allowance during each future reporting period.

**Liquidity and Capital Resources**

| (dollars in thousands)                               | 2006        | 2005        |
|--|-------------|-------------|
| <b>Summary of Cash Flows:</b>                        |             |             |
| Net cash provided (used) by operating activities     | \$ (13,069) | \$ (10,977) |
| Net cash used by investing activities                | (1,908)     | (5,477)     |
| Net cash provided by financing activities            | 14,110      | 16,687      |
| <br>   |             |             |
| Net increase (decrease) in cash and cash equivalents | \$ (867)    | \$ 233      |
| Beginning cash and cash equivalents                  | 3,283       | 3,050       |
| <br>   |             |             |
| Ending cash and cash equivalents                     | \$ 2,416    | \$ 3,283    |

**Discussion of Cash Flows**

Net cash used in operating activities in 2006 was \$13.1 million. Cash used in operating activities for 2006 primarily reflected an operating loss of \$19.1 million, offset by depreciation of \$3.1 million, a decrease in inventory and accounts receivable of \$2 million and share based compensation of \$.9 million. Net cash used in operating activities in 2005 was \$11.0 million. Cash used in operating activities for 2005 primarily reflected an operating loss of \$14.9 million, offset by deferred income taxes of \$2.8 million, depreciation of \$1.5 million, an increase in inventory and deposits and a decrease in accounts receivable.

Cash flows used in investing activities were \$1.9 million and \$5.5 million for fiscal years 2006 and 2005, respectively. Cash used in investing for 2006 consisted of \$2.7 million for the purchase of a search and inspection vessel and ROV system of which we financed \$1.1 million, \$.6 million for property and equipment offset by \$.5 million net proceeds from the sale of our smallest ship, the RV *Odyssey*, and \$.2 million for our

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themed attractions segment. Cash used in investing activities for 2005 primarily reflected \$3.7 million for capital expenditures for our themed attractions segment including our New Orleans attraction, and \$1.8 million used for the capital expenditures for property, equipment and improvements.



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Cash flows provided by financing activities were \$14.1 million and \$16.7 million for fiscal years 2006 and 2005, respectively. In 2006, the cash provided by financing activities included \$10.6 million net proceeds from the sale of common and preferred stock, \$5.2 million proceeds from loans (revolving credit and equipment) offset by \$1.7 million revolving credit loan and mortgage repayments. In 2005, the cash provided by financing activities included \$16.8 million for the issuance of common stock which was primarily due to the exercise of outstanding warrants and common shares issued in our private placement, offset by \$0.1 million mortgage repayment.

### ***General Discussion***

At December 31, 2006, we had cash and cash equivalents of \$2.4 million, a decrease of \$0.9 million from the December 31, 2005 balance of \$3.3 million.

During March 2006, we received approximately \$8.8 million from the sale of 2.5 million shares of non-voting Series D Convertible Preferred Stock, par value \$0.0001 per share, at \$3.50 per share to five funds managed by two institutional accredited investors pursuant to the terms of a purchase agreement. The Series D Preferred Stock is convertible into Common Stock at a ratio of one (1) share of Common Stock for every one (1) share of Series D Preferred Stock. The net proceeds from the preferred stock offering are being used for general corporate purposes and the purchase of marine property and equipment.

During March 2006, we entered into an Amended and Restated Revolving Credit Agreement with Mercantile Bank (the Bank). The Amended and Restated Credit Agreement replaces the Company's prior agreement with the Bank. The Amended and Restated Agreement reduced the amount of the commitment from the Bank from a \$6 million revolving credit facility to a \$3 million credit facility. The \$4 million of gold coins previously collateralized were removed from the amended agreement and silver coins collateralized and held by the custodian increased from 10,000 to 15,000 coins. The credit facility has a floating interest rate equal to the LIBOR 30-Day Index Rate plus two hundred sixty-five basis points (2.65%), requires monthly payments of interest only and is due in full on April 21, 2008. The Company will also be required to pay the Bank an unused line fee equal to 0.25% per annum of the unused portion of the credit line, payable quarterly. Additionally, the Company granted a first lien position on all corporate assets, including a provision not to pledge as collateral our Company-owned vessels. The Company is required to comply with a number of covenants as stated in the Amended and Restated Revolving Credit Agreement. As of December 31, 2006, we had an outstanding loan balance of \$3.0 million on the credit facility. We are currently evaluating replacing or increasing this revolving credit facility to utilize all available coin inventory as collateral (approximately 37,000 coins).

During June 2006, we entered into a mortgage loan for \$2.4 million with Carolina First Bank for the refinancing of our corporate office building. This mortgage replaced the original mortgage held by the Bank of Tampa which had an outstanding loan balance of \$1.7 million. The mortgage loan is due on June 1, 2009 and monthly payments are based on a 20 year amortization schedule. Interest is at a fixed annual rate of 7.5%.

During June 2006, we entered into a loan agreement for \$1.12 million with Mercantile Bank for the purchase of a remotely operated vehicle (ROV) of which the purchase price was \$1.4 million. This loan has a maturity date of September 1, 2009 and bears a variable LIBOR interest rate that is adjusted monthly. The variable rate is calculated by dividing LIBOR by an amount equal to 1.00 minus the Libor Reserve Percentage, plus 3.0%. The interest rate in effect as of December 31, 2006 was 7.98%. The first three months of the agreement required interest only payments followed by principle payments of \$32,000 plus interest over the remaining life of the loan.

During July 2006, we received net proceeds of \$.5 million from the sale of our smaller search and inspection vessel, the RV *Odyssey*. These proceeds were used to partially offset the June 2006 purchase of an additional ship similar in size to the *Odyssey Explorer*. In October 2006 we received a partial settlement from the insurance company of \$.4 million in regards to our outstanding Hurricane Katrina claim for our New Orleans attraction. The remaining insurance settlement of \$.8 million was received in November 2006 for a final settlement of \$1.2 million.

In November 2006, we completed a private placement of 500,000 shares of common stock and warrants to purchase 100,000 shares of common stock to three accredited investors for an aggregate purchase price of \$1.5 million. The warrants are exercisable at \$4.00 per share through November 22, 2008.

During January 2007, we received approximately \$6.6 million from the sale of 2.2 million shares of Series D Convertible Preferred Stock, par value \$0.0001 per share, at a price of \$3.00 per share to eight funds managed by two institutional accredited investors pursuant to the terms of a purchase agreement. In connection with the transaction, we also issued the investors warrants to

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purchase an aggregate of 440,000 additional shares of Series D Preferred Stock with an exercise price of \$4.00 per share and an expiration date of January 24, 2009, and issued to certain of the investors warrants to purchase an aggregate of 2,200,000 shares of Series D Preferred Stock with an exercise price of \$3.50 per share and an expiration date of May 15, 2007, in exchange for the cancellation and surrender of 2.2 million warrants to purchase Common Stock held by such investors with an exercise price of \$3.50 per share of Common Stock and an expiration date of March 9, 2007. The net proceeds from the preferred stock offering are being used for general corporate purposes and the purchase of marine property and equipment. Potential proceeds from the exercise of the March and May 2007 \$3.50 warrants would be \$3.4 million and \$7.7 million, respectively.

**Material Trends and Uncertainties**

The results of operations for the immediate two preceding fiscal years produced net operating losses. We anticipate we will continue to incur net losses in 2007. Our ability to generate net income in future periods is dependent upon the success of our ability to recover and monetize high-value shipwrecks. We believe we have several potential high-value shipwreck targets which could be recovered in 2007. Our current 2007 business plan estimates our cash requirements for operations and capital expenditures will range from \$18 million to \$22 million. Based upon our \$2.4 million 2006 year end cash position, recent equity offering and projected 2007 revenues, we estimate an additional cash requirement of \$5 million to \$7 million to meet our projected business plan requirements. In May 2007, we have a potential exercise of \$3.50 warrants for \$7.7 million. However, if the warrants expire, we will be required to raise additional financing to fund our projected business plan. While we have been successful in raising the necessary funds in the past, there can be no assurance we can continue to do so. We also cannot guarantee that the sales of our products and other available cash sources will generate sufficient cash flow to meet our projected cash requirements in 2007. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to reduce our exploration and development efforts and overhead to a level for which funding can be secured.

**2005 Compared to 2004**

| (dollars in millions)                | 2005    | 2004    | 2005 vs 2004 |       |
|--------------------------------------|---------|---------|--------------|-------|
|                                      |         |         | \$           | %     |
| Revenue                              | \$ 10.0 | \$ 17.6 | \$ (7.6)     | (43)% |
| Cost of sales                        | 1.1     | 1.9     | (0.8)        | (42)% |
| Operations & research                | 11.3    | 2.0     | 9.3          | 473%  |
| Marketing, general, & administrative | 9.3     | 5.0     | 4.2          | 84%   |
| Total cost and expenses              | \$ 21.7 | \$ 8.9  | \$ 12.8      | 143%  |

**Revenue**

Revenues are generated primarily through the sale of gold and silver coins, but also include other artifacts and merchandise. Revenues for fiscal years 2005 and 2004 were \$10.0 million and \$17.6 million, respectively, representing sales volume of approximately 2,500 gold and silver coins in 2005 and approximately 9,000 gold and silver coins in 2004. In 2005 sales were made through independent coin dealers at wholesale prices as well as through our direct retail sales telemarketing area. In 2004, sales were made only through independent coin dealers. Revenues were significantly lower in 2005 versus 2004 due to a number of factors.

We continued to sell numismatic coins to independent coin dealers. During the latter half of 2005, we experienced a decrease in numismatic gold coin revenue, relative to 2004, due to a lower availability of our highest value gold coins, a desire to maximize total revenue from coin inventory, and sales to fewer independent coin dealers. The number of independent dealers dropped from thirteen in 2004 to six in 2005 of which two dealers represented 57 percent of our total sales. Our experience has shown that many of these independent dealers are primarily interested in the higher quality numismatic coin market. As our availability of these higher quality coins diminishes, we expected the number of independent dealers interested in our coins to be reduced. In addition, the sale of silver half dollars to our independent coin dealer wholesale channel was significantly reduced from 2004 levels, as their main interest has been in the numismatic gold coins. We continue to develop additional indirect sales channels to supplement our coin dealer network for our non-graded gold, shipwreck effect silver coins and for other merchandise.

We continued to develop and plan to increase retail distribution of coins and other merchandise through direct sales channels. However, during our first year of direct sales in 2005, sales volumes were lower than originally expected. While we have been developing a strong client base

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with a promising percentage of repeat sales, it has taken longer than expected to generate the numbers of leads and customers necessary to reach our goals.

**Table of Contents****Cost and Expenses**

Cost of sales consists of shipwreck recovery costs, grading, conservation, packaging, and shipping costs associated with artifact, merchandise and book sales. Cost of sales as a percentage of revenue for 2005 and 2004 was 11 percent and 11 percent, respectively. The major factors that contribute to cost of sales as a percentage of revenue include capitalized ship recovery costs, number of artifacts recovered, revenue per artifact sold and the cost of merchandise and books. Cost of sales as a percentage of revenue will change depending on the sales mix because of the significantly higher unit sales prices for gold than silver coins and other merchandise.

Operations and research expenses were \$11.3 million in 2005, compared to \$2.0 million in 2004. Of the \$9.3 million increase in 2005, \$4.2 million was because vessel recovery costs were not capitalized since February 2005 when our recovery vessel left the SS *Republic* site. Vessel recovery costs of \$4.8 million were capitalized in 2004 versus \$0.6 million in 2005. Additionally, \$3.3 million was attributable to vessel operations which included \$1.8 million for chartering a vessel to conduct search operations for the Atlas project; \$.5 million related to our research and conservation efforts; and \$1.0 million was attributable to start up operations of our themed attractions segment, primarily due to the opening of our Odyssey Shipwreck & Treasure Adventure in New Orleans; and \$0.3 million related to write-off of our investment in developing a second themed attraction location.

Marketing, general and administrative expenses were \$9.3 million in 2005 as compared to \$5.1 million in 2004. We continued expansion of our corporate support functions due to execution of our business plan primarily associated with continued development of our search and recovery projects, expansion of our marketing and sales function, and expansion of our corporate support functions. Of the \$4.2 million increase, \$2.3 million resulted from expansion of our marketing and sales function primarily associated with development of a direct sales effort, \$0.6 million related to general and administrative expenses associated with start up of our themed attractions segment, and \$1.3 million was attributable to other general and administration expenses, corporate communication, information technology, professional and audit services primarily related to the implementation of Sarbanes-Oxley.

**Income Taxes**

For fiscal year 2005, we recorded a provision for income taxes of \$3.3 million compared to a provision for income taxes of \$3.5 million for fiscal year 2004. Net operating loss carryforwards resulted in a \$2.8 million net deferred tax asset as of December 31, 2004. Due to the uncertainty surrounding the realization of deferred tax assets resulting from operating loss carryforwards, we recorded a full valuation allowance of \$7.8 million against the deferred tax assets as of December 31, 2005. The effect of this non-cash adjustment was to reduce the net deferred tax asset to \$0 which resulted in a reduction of net income by \$7.8 million.

**Liquidity and Capital Resources**

| (dollars in thousands)                           | 2005        | 2004     |
|--|-------------|----------|
| <b>Summary of Cash Flows:</b>                    |             |          |
| Net cash provided (used) by operating activities | \$ (10,977) | \$ 2,761 |
| Net cash used by investing activities            | (5,477)     | (4,121)  |
| Net cash provided by financing activities        | 16,687      | 3,059    |
| Net increase in cash and cash equivalents        | \$ 233      | \$ 1,699 |
| Beginning cash and cash equivalents              | 3,050       | 1,351    |
| Ending cash and cash equivalents                 | \$ 3,283    | \$ 3,050 |

**Discussion of Cash Flows**

At December 31, 2005, we had cash and cash equivalents of \$3.3 million, an increase of \$0.2 million from the December 31, 2004 balance of \$3.1 million.

Net cash used in operating activities in 2005 was \$11.0 million. Cash used in operating activities for 2005 primarily reflected an operating loss of \$14.9 million, offset by deferred income taxes of \$2.8 million, depreciation of \$1.5 million, an increase in inventory and deposits and a decrease in accounts receivable. The net cash provided in operating activities for fiscal year 2004 primarily reflected positive operating results

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and deferred income taxes offset by an increase in inventory and accounts receivable.

Cash flows used in investing activities were \$5.5 million and \$4.1 million for fiscal years 2005 and 2004, respectively. Cash used in investing activities for 2005 primarily reflected \$3.7 million for capital expenditures for our themed attractions segment

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including our New Orleans attraction, and \$1.8 million used for the capital expenditures for property, equipment and improvements. Cash used in investing activities for fiscal year 2004 primarily reflected the cash purchase of our office building and improvements, property and equipment and capital expenditures related to attraction development.

Cash flows provided by financing activities were \$16.7 million and \$3.1 million for fiscal years 2005 and 2004, respectively. In 2005, the cash provided by financing activities included \$16.8 million for the issuance of common stock which was primarily due to the exercise of outstanding warrants and common shares issued in our private placement, offset by \$0.1 million mortgage repayment. Cash provided by financing activities of \$3.1 million in fiscal year 2004 included the net proceeds from the sale of marketable securities of \$2.0 million and \$1.0 million from the proceeds of sale of common stock.

## **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.

## **Indemnification Provisions**

Under our bylaws and certain consulting and employment agreements, we have agreed to indemnify our officers and directors for certain events arising as a result of the officer's or director's serving in such capacity. The term of the indemnification agreement is as long as the officer or director remains in the employment of the company. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. However, our director and officer liability insurance policy limits its exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal and no liabilities are recorded for these agreements as of December 31, 2006.

## **Critical Accounting Estimates**

The discussion and analysis of our financial position and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect our financial position and results of operations. See Note A to the Financial Statements for a description of our significant accounting policies. Critical accounting estimates are defined as those that are reflective of significant judgment and uncertainties, and potentially result in materially different results under different assumptions and conditions. We have identified the following critical accounting estimates. We have discussed the development, selection and disclosure of these policies with our audit committee.

### *Long-lived Assets*

As of December 31, 2006, we had approximately \$11.9 million of property and equipment and related assets. In accounting for these long-lived assets, we make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Our policy is to recognize impairment losses relating to long-lived assets in accordance with Financial Accounting Standards Board No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* based on several factors, including, but not limited to, management's plans for future operations, recent operating results and projected cash flows. To date no such impairment has been indicated.

### *Realizability of Deferred Tax Assets*

In accordance with SFAS No. 109, *Accounting for Income Taxes*, 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 realizable and thus a valuation allowance of \$14.9 million has been recorded as of December 31, 2006. We will continue to reassess the need for a valuation allowance during each future reporting period.

**Table of Contents****Contractual Obligations**

At December 31, 2006, the Company's contractual obligations including estimated payments due by period, are as follows:

| (dollars in thousands)               | Total           | Payments due by period |                 |           |                      |
|--------------------------------------|-----------------|------------------------|-----------------|-----------|----------------------|
|                                      |                 | Less than<br>1 year    | 1-3 years       | 3-5 years | More than<br>5 years |
| <b>Contractual Obligations</b>       |                 |                        |                 |           |                      |
| Long term debt                       | \$ 6,497        | \$ 3,444               | \$ 3,053        | \$        | \$                   |
| Interest on debt                     | 811             | 498                    | 313             |           |                      |
| Operating leases                     | 125             | 88                     | 37              |           |                      |
| Purchase obligations                 |                 |                        |                 |           |                      |
| <b>Total contractual obligations</b> | <b>\$ 7,433</b> | <b>\$ 4,030</b>        | <b>\$ 3,403</b> | <b>\$</b> | <b>\$</b>            |

Long term debt represents the amount due on our existing mortgage for our office building, note payable and revolving credit facility. Operating leases consist primarily of our conservation lab in Tampa.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this item appears beginning on page 25.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES*****Disclosure Controls and Procedures***

We maintain a set of disclosure controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that we are able to collect, process and disclose the information we are required to disclose in the reports we file with the SEC within required time periods.

***Internal Controls over Financial Reporting***

Management's report on our internal controls over financial reporting can be found in the financial statement section of this report. The Independent Registered Public Accounting Firm's attestation report on management's assessment of the effectiveness of our internal control over financial reporting can also be found in the financial statement section of this report.

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There have been no significant changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.



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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this Item is hereby incorporated by reference under the headings Election of Directors and Executive Officers and Directors of the Company of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2007.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is hereby incorporated by reference under the heading Executive Compensation of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2007.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

A portion of the information required by this Item pursuant to Item 403 of Regulation S-K is hereby incorporated by reference under the heading Security Ownership of Certain Beneficial Owners and Management of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2007.

The information required pursuant to Item 201(d) of Regulation S-K is hereby incorporated by reference under the heading Equity Compensation Plan Information of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2007.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this Item is hereby incorporated by reference under the heading Certain Relationships and Related Transactions of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2007.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is hereby incorporated by reference under the heading Independent Auditor Fees of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2007.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this Annual Report on Form 10-K:

1. (a) Consolidated Financial Statements  
  
See Index to Consolidated Financial Statements on page 22.
- (b) Consolidated Financial Statement Schedules  
  
See Index to Consolidated Financial Statements on page 22.

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All other schedules have been omitted because the required information is not significant or is included in the financial statements or notes thereto, or is not applicable.

### 2. Exhibits

The Exhibits listed in the Exhibit Index, which appears immediately following the signature page and is incorporated herein by reference, are filed as part of this Annual Report on Form 10-K.

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**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework and the criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of December 31, 2006.

The Company's independent auditor, Ferlita, Walsh & Gonzalez, P.A., a registered public accounting firm, has issued an attestation report on management's assessment of internal control over financial reporting, which is included herein.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors

Odyssey Marine Exploration, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Odyssey Marine Exploration, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the fiscal years ended December 31, 2006 and 2005, and the ten month transition period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Odyssey Marine Exploration, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the fiscal years ended December 31, 2006 and 2005, and the ten month transition period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As described in Note A to the consolidated financial statements, the Company adopted, prospectively, the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment effective January 1, 2006 and changed its method of accounting for stock-based compensation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and in our report dated February 2, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of the internal control over financial reporting.

/s/ *Ferlita, Walsh & Gonzalez, P.A.*  
FERLITA, WALSH & GONZALEZ, P.A.  
Certified Public Accountants  
Tampa, Florida  
February 2, 2007

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors

Odyssey Marine Exploration, Inc. and Subsidiaries

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Odyssey Marine Exploration, Inc. and Subsidiaries maintained effective internal control over financial reporting of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Odyssey Marine Exploration, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Odyssey Marine Exploration, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Odyssey Marine Exploration, Inc and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by COSO. Also, in our opinion, Odyssey Marine Exploration and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Odyssey Marine Exploration and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for the fiscal years ended December 31, 2006 and 2005, and the ten month transition period ended December 31, 2004 and our report dated February 2, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ *Ferlita, Walsh & Gonzalez, P.A.*  
Ferlita, Walsh & Gonzalez, P.A.  
Certified Public Accountants  
Tampa, Florida  
February 2, 2007

**Table of Contents****ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

|   | December 31,<br>2006 | December 31,<br>2005 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| <b>CURRENT ASSETS</b>   |                      |                      |
| Cash and cash equivalents   | \$ 2,415,842         | \$ 3,283,331         |
| Accounts receivable, net  | 443,523              | 1,527,913            |
| Inventory   | 2,263,078            | 4,728,394            |
| Other current assets  | 359,665              | 729,678              |
| <b>Total current assets</b>   | <b>5,482,108</b>     | <b>10,269,316</b>    |
| <b>PROPERTY AND EQUIPMENT</b>   |                      |                      |
| Equipment and office fixtures   | 12,764,389           | 10,745,738           |
| Building and land   | 3,709,873            | 3,973,988            |
| Accumulated depreciation  | (4,539,855)          | (2,738,572)          |
| <b>Total property and equipment</b>   | <b>11,934,407</b>    | <b>11,981,154</b>    |
| <b>OTHER ASSETS</b>   |                      |                      |
| Inventory (non current)   | 7,353,159            | 5,839,914            |
| Attraction development  | 1,261,573            | 1,172,475            |
| Other long term assets  | 1,176,606            | 927,599              |
| <b>Total other assets</b>   | <b>9,791,338</b>     | <b>7,939,988</b>     |
| <b>Total assets</b>   | <b>\$ 27,207,853</b> | <b>\$ 30,190,458</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                      |                      |
| <b>CURRENT LIABILITIES</b>  |                      |                      |
| Accounts payable  | \$ 498,482           | \$ 601,129           |
| Accrued expenses  | 1,947,082            | 1,843,261            |
| Mortgage and loans payable  | 3,443,605            | 111,433              |
| Deposits  | 11,979               | 103,069              |
| <b>Total current liabilities</b>  | <b>5,901,148</b>     | <b>2,658,892</b>     |
| <b>LONG TERM LIABILITIES</b>  |                      |                      |
| Mortgage and loans payable  | 3,053,485            | 1,758,333            |
| Deferred income from Revenue Participation Certificates   | 887,500              | 887,500              |
| <b>Total long term liabilities</b>  | <b>3,940,985</b>     | <b>2,645,833</b>     |
| <b>Total liabilities</b>  | <b>9,842,133</b>     | <b>5,304,725</b>     |
| <b>STOCKHOLDERS EQUITY</b>  |                      |                      |
| Preferred stock \$.0001 par value; 6,800,000 shares authorized; none outstanding                              |                      |                      |
| Preferred stock series A convertible \$.0001 par value; 510,000 shares authorized; none issued or outstanding |                      |                      |

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|   |                   |                   |
|---|-------------------|-------------------|
| Preferred stock series D convertible \$\$.0001 par value; 2,500,000 shares authorized; 2,500,000 issued and outstanding | 250               |                   |
| Common stock \$.0001 par value; 100,000,000 shares authorized; 46,785,254 and 45,823,224 issued and outstanding         | 4,678             | 4,582             |
| Additional paid-in capital  | 55,437,954        | 43,870,228        |
| Accumulated deficit   | (38,077,162)      | (18,989,077)      |
| <br>Total stockholders equity   | <br>17,365,720    | <br>24,885,733    |
| <br>Total liabilities and stockholders equity   | <br>\$ 27,207,853 | <br>\$ 30,190,458 |

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



**Table of Contents****ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

|  | <b>12 Month<br/>Period Ended<br/>December 31,<br/>2006</b> | <b>12 Month<br/>Period Ended<br/>December 31,<br/>2005</b> | <b>10 Month<br/>Period Ended<br/>December 31,<br/>2004</b> |
|--|--|--|--|
| REVENUE  | \$ 5,063,920   | \$ 10,036,575  | \$ 17,622,092  |
| OPERATING EXPENSES                                   |  |  |  |
| Cost of sales  | 1,087,830  | 1,098,014  | 1,883,912  |
| Operations and research                              | 15,025,525   | 11,294,015   | 1,962,186  |
| Marketing, general & administrative                  | 8,695,309  | 9,294,056  | 5,072,681  |
| Total operating expenses                             | 24,808,664   | 21,686,085   | 8,918,779  |
| INCOME (LOSS) FROM OPERATIONS                        | (19,744,744)   | (11,649,510)   | 8,703,313  |
| OTHER INCOME OR (EXPENSE)                            |  |  |  |
| Interest income                                      | 103,580  | 57,882   | 6,011  |
| Interest expense                                     | (305,644)  | (121,439)  | (57,842)   |
| Other income   | 858,723  | 74,692   | 40,667   |
| Total other income or (expense)                      | 656,659  | 11,135   | (11,164)   |
| INCOME (LOSS) BEFORE INCOME TAXES                    | (19,088,085)   | (11,638,375)   | 8,692,149  |
| Income tax (provision) benefit                       |  | (3,281,510)  | (3,462,911)  |
| NET INCOME (LOSS)                                    | \$ (19,088,085)  | \$ (14,919,885)  | \$ 5,229,238   |
| EARNINGS (LOSS) PER SHARE                            |  |  |  |
| Basic  | \$ (.41)   | \$ (.35)   | \$ 0.14  |
| Diluted  | \$ (.41)   | \$ (.35)   | \$ 0.13  |
| Weighted average number of common shares outstanding |  |  |  |
| Basic  | 46,150,593   | 42,373,217   | 38,400,329   |
| Diluted  | 46,150,593   | 42,373,217   | 40,254,049   |

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

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**ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND**  
**COMPREHENSIVE INCOME**

|  | 12 Month<br>Period Ended<br>December 31,<br>2006 | 12 Month<br>Period Ended<br>December 31,<br>2005 | 10 Month<br>Period Ended<br>December 31,<br>2004 |
|--|--|--|--|
| <b>Preferred Stock, Series D - Shares</b>                |  |  |  |
| At beginning of year                                     |  |  |  |
| Preferred stock issued for cash                          | 2,500,000  |  |  |
| At end of year   | 2,500,000  |  |  |
| <b>Common Stock - Shares</b>                             |  |  |  |
| At beginning of year                                     | 45,823,224                                       | 38,530,599                                       | 37,993,099                                       |
| Common stock issued for cash                             | 830,954  | 7,252,625  | 537,500  |
| Common stock issued for services                         | 131,076  | 40,000   |  |
| At end of year   | 46,785,254                                       | 45,823,224                                       | 38,530,599                                       |
| <b>Preferred Stock , Series D</b>                        |  |  |  |
| At beginning of year                                     | \$   | \$   | \$   |
| Preferred stock issued for cash                          | 250  |  |  |
| At end of year   | \$ 250   | \$   | \$   |
| <b>Common Stock</b>                                      |  |  |  |
| At beginning of year                                     | \$ 4,582   | \$ 3,853   | \$ 3,799   |
| Common stock issued for cash                             | 83   | 729  | 54   |
| Common stock issued for services                         | 13   |  |  |
| At end of year   | \$ 4,678   | \$ 4,582   | \$ 3,853   |
| <b>Paid-in Capital</b>                                   |  |  |  |
| At beginning of year                                     | \$ 43,870,228                                    | \$ 26,430,934                                    | \$ 25,147,839                                    |
| Series D Preferred stock issued for cash                 | 8,749,750  |  |  |
| Common stock issued for cash                             | 1,889,109  | 16,848,083                                       | 1,030,259  |
| Common stock issued for services                         | 391,275  | 100,000  |  |
| Stock options issued for services                        | 537,592  | 38,101   |  |
| Tax benefit on exercised employee stock options          |  | 453,110  | 252,836  |
| At end of year   | \$ 55,437,954                                    | \$ 43,870,228                                    | \$ 26,430,934                                    |
| <b>Accumulated Unrealized Loss in Investment</b>         |  |  |  |
| At beginning of year                                     | \$   | \$ 554   | \$ 2,988   |
| Net change in unrealized gain on investments, net of tax |  | (554)  | (2,434)  |

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|  |                 |                 |                |
|--|-----------------|-----------------|----------------|
| At end of year   | \$              | \$              | \$ 554         |
| <b>Accumulated Deficit</b>                               |                 |                 |                |
| At beginning of year                                     | \$ (18,989,077) | \$ (4,069,192)  | \$ (9,298,430) |
| Net income (loss)  | (19,088,085)    | (14,919,885)    | 5,229,238      |
| At end of year   | (38,077,162)    | (18,989,077)    | (4,069,192)    |
| Total shareholders' equity                               | \$ 17,365,720   | \$ 24,885,733   | \$ 22,366,149  |
| <b>Comprehensive Income (Loss)</b>                       |                 |                 |                |
| Net income (Loss)  | \$ (19,088,085) | \$ (14,919,885) | \$ 5,229,238   |
| Net change in unrealized gain on investments, net of tax |                 | (554)           | (2,434)        |
| At end year  | \$ (19,088,085) | \$ (14,920,439) | \$ 5,226,804   |

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

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

|  | 12 Month<br>Period Ended<br>December 31,<br>2006 | 12 Month<br>Period Ended<br>December 31,<br>2005 | 10 Month<br>Period Ended<br>December 31,<br>2004 |
|--|--|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |  |  |  |
| Net Income (Loss)  | \$ (19,088,085)                                  | \$ (14,919,885)                                  | \$ 5,229,238                                     |
| Adjustments to reconcile net income (loss) to net cash used by operating activity: |  |  |  |
| Effect of unrealized gain on investments   |  |  | (2,434)  |
| Tax benefit related to exercise of employee stock options                          |  | 453,110  | 252,836  |
| Share based compensation   | 928,880  | 38,101   |  |
| Depreciation   | 3,139,589  | 1,445,551  | 362,114  |
| (Gain) Loss on disposal of equipment   | (139,659)  | 43,528   | 20,000   |
| (Increase) decrease in:  |  |  |  |
| Accounts receivable  | 1,047,642  | 210,004  | (2,092,438)                                      |
| Inventory  | 952,071  | (717,110)  | (5,658,105)                                      |
| Other assets   | 90,285   | (687,797)  | (82,646)   |
| Deferred tax asset   |  | 2,828,400  | 3,208,198  |
| Increase (decrease) in:  |  |  |  |
| Accounts payable   | (102,644)  | 9,988  | (402,388)  |
| Accrued expenses and other   | 66,266   | 319,041  | 1,926,773  |
| <b>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</b>                            | <b>(13,105,655)</b>                              | <b>(10,977,069)</b>                              | <b>2,761,148</b>                                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                       |  |  |  |
| Purchase of property, equipment and improvements                                   | (2,310,954)                                      | (1,869,532)                                      | (2,217,418)                                      |
| Attractions development  | (150,667)  | (3,656,982)                                      | (569,634)  |
| Proceeds from sale of equipment  | 553,240  | 49,647   |  |
| Purchase of building and land  |  |  | (1,333,481)                                      |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                       | <b>(1,908,381)</b>                               | <b>(5,476,867)</b>                               | <b>(4,120,533)</b>                               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                       |  |  |  |
| Proceeds from issuance of common stock   | 1,946,193  | 16,848,813                                       | 1,030,313  |
| Proceeds from issuance of loan payable   | 5,185,485  | 11,433   | 1,523,700  |
| Proceeds from sale of marketable securities  |  |  | 1,996,420  |
| Proceeds from issuance of preferred stock  | 8,750,000  |  |  |
| Broker commissions and fees on private offering                                    | (57,000)   |  |  |
| Repayment of mortgage and loans payable  | (1,678,161)                                      | (173,700)  | (1,491,667)                                      |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                   | <b>14,146,517</b>                                | <b>16,686,546</b>                                | <b>3,058,766</b>                                 |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                        | <b>(867,489)</b>                                 | <b>232,610</b>                                   | <b>1,699,381</b>                                 |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                              | <b>3,283,331</b>                                 | <b>3,050,721</b>                                 | <b>1,351,340</b>                                 |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                    | <b>\$ 2,415,842</b>                              | <b>\$ 3,283,331</b>                              | <b>\$ 3,050,721</b>                              |
| <b>SUPPLEMENTARY INFORMATION:</b>  |  |  |  |
| Interest paid  | \$ 303,388                                       | \$ 119,174                                       | \$ 53,051  |
| Income taxes paid  | \$   | \$   | \$   |

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NON CASH TRANSACTIONS:

|   |    |           |         |         |         |           |
|---|----|-----------|---------|---------|---------|-----------|
| Depreciation reclassified as inventory                  | \$ | \$        | 72,912  | \$      | 374,123 |           |
| Compensation paid by common stock                       | \$ | \$        | 100,000 | \$      |         |           |
| Settlement of accounts receivable with accounts payable | \$ | 53,539    | \$      | 317,350 | \$      | 40,000    |
| Building and equipment purchased with financing         | \$ | 1,120,000 | \$      |         | \$      | 2,000,000 |

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**Summary of Significant Non-Cash Transactions**

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

The ending balance in Attraction development on December 31, 2004 for our New Orleans Attraction development in the amount of \$196,054 was transferred to Property and equipment for the period ended December 31, 2005.

We previously reported \$1,888,742 in Attraction development purchases for the six month period ended June 30, 2005. This amount was moved to Purchase of property and equipment for the fiscal year ended December 31, 2005.

During June 2006, we entered into a mortgage loan for \$2.5 million with Carolina First Bank for the refinancing of our corporate office building. At the closing of this loan, the outstanding amount of approximately \$1.8 million due on the original mortgage with Bank of Tampa was paid in full.

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 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Odyssey Marine Exploration, Inc., is engaged in the archaeologically sensitive exploration and recovery of deep-water shipwrecks throughout the world and the operation of interactive attractions and exhibits which will entertain and educate multi-generational audiences, and present our unique shipwreck stories and artifacts. The corporate headquarters are located in Tampa, Florida.

**Summary of Significant Accounting Policies**

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

**Principles of Consolidation**

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

Shipwreck Heritage Press, LLC was created during 2005 to publish and distribute print media. The entity does not have activity and has not been capitalized, and therefore, it is not consolidated.

**Reclassifications**

Certain operating expense amounts for the fiscal year December 31, 2004 have been reclassified to conform to the presentation of the December 31, 2005 and 2006 amounts. The reclassifications have no effect on net income for the ten month fiscal year ended December 31, 2004.

**Use of Estimates**

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense for the fiscal years 2006, 2005, and 2004 was \$881,000, \$996,000, and \$45,000, respectively.

**Revenue Recognition and Accounts Receivable**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and cash in banks. We also consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents, accounts receivable, prepaid expense, investments, accounts payable, accrued expense, loan payable and mortgage payable approximate fair value. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that we could realize in a current market exchange.



**Table of Contents****Inventory**

Our inventory consists of artifacts recovered from the SS *Republic* shipwreck, related packaging material for the artifacts, and merchandise.

The SS *Republic* shipwreck artifacts are recorded in inventory at the costs of recovery and conservation. The recovery costs also include the fee paid to an insurer to relinquish the insurers claim to the artifacts recovered and the shipwreck. We started capitalizing costs in November 2003 after establishing the artifacts being recovered had a net realizable value exceeding the costs being capitalized. We continued to capitalize the recovery costs until the shipwreck site was completely excavated. The capitalized costs include direct costs of recovery such as vessel and related equipment operations and maintenance, crew and technical labor, fuel, provisions and supplies, port fees and depreciation. Conservation costs include fees paid to conservators for cleaning and preparing the artifacts for sale. We continually monitor the recorded aggregate costs of the artifacts in inventory to ensure these costs do not exceed the net realizable value. We use historical sales, publications or available public market data to assess market value.

The 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 Financial Accounting Standards Board No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets based on several factors, including, but not limited to, management's plans for future operations, recent operating results and projected cash flows. Due to the closing of the themed attraction in the New Orleans market during 2006, we accelerated the estimated useful lives of certain fixed assets and leasehold improvements to a life ending on or before December 31, 2006. This resulted in additional depreciation and amortization of \$874,434 for the year ended December 31, 2006.

**Comprehensive Income**

United States Treasury bills 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 December 31, 2006, we did not own United States Treasury Bills 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 five and ten years. Leasehold improvements are amortized over their estimated useful lives or lease term, if shorter. Depreciation expense capitalized was directly related to our vessel *Odyssey Explorer* and supporting equipment during the SS *Republic* excavation.

|  | 12 Month     | 12 Month     | 10 Month     |
|--|--------------|--------------|--------------|
|  | Period Ended | Period Ended | Period Ended |
|  | December 31, | December 31, | December 31, |
|  | 2006         | 2005         | 2004         |
| Depreciation and amortization              | \$ 3,139,589 | \$ 1,518,463 | \$ 736,237   |
| Less depreciation capitalized to inventory |              | 72,912       | 374,123      |
| Net depreciation expense                   | \$ 3,139,589 | \$ 1,445,551 | \$ 362,114   |

**Earnings Per Share**

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if dilutive securities and other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in our earnings.

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We use the treasury stock method to compute potential common shares from stock options and warrants and the as-if-converted method to compute potential common shares from Preferred Stock or other convertible securities.

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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 December 31, 2006 and 2005 weighted average common shares outstanding were 46,150,593 and 42,373,217 respectively. For the periods ending December 31, 2006 and 2005 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.

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

|   | 2006    | 2005    |
|---|---------|---------|
| Average market price during the period        | \$ 2.99 | \$ 3.73 |
| In the money potential common shares excluded | 343,503 | 884,478 |

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

|  | 2006      | 2005    |
|--|-----------|---------|
| Out of the money options and warrants excluded:            |           |         |
| Stock Options with an exercise price of \$3.50 per share   | 729,166   |         |
| Stock Options with an exercise price of \$4.00 per share   | 361,000   | 60,500  |
| Stock Options with an exercise price of \$5.00 per share   | 495,000   | 595,000 |
| Warrants with an exercise price of \$3.50 per share        | 3,170,000 |         |
| Warrants with an exercise price of \$4.00 per share        | 100,000   |         |
| Warrants with an exercise price of \$5.25 per share        | 100,000   | 100,000 |
| Total anti dilutive warrants and options excluded from EPS | 4,955,166 | 755,500 |

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

|  | 2006      | 2005 |
|--|-----------|------|
| Weighted average potential common shares from Series D Preferred Stock excluded from computation of diluted earnings per share | 2,000,000 |      |

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

|   | 12 Month        | 12 Month        | 10 Month     |
|---|-----------------|-----------------|--------------|
|   | Period Ended    | Period Ended    | Period Ended |
|   | December 31,    | December 31,    | December 31, |
|   | 2006            | 2005            | 2004         |
| Numerator, basic and diluted net income               | \$ (19,088,085) | \$ (14,919,885) | \$ 5,229,238 |
| Denominator:  |                 |                 |              |
| Shares used in computation basic:                     |                 |                 |              |
| Weighted average common shares outstanding            | 46,150,593      | 42,373,217      | 38,400,329   |
| Shares used in computing basic net income per share   | 46,150,593      | 42,373,217      | 38,400,329   |
| Shares used in computation diluted:                   |                 |                 |              |
| Weighted average common shares outstanding            | 46,150,593      | 42,373,217      | 38,400,329   |
| Dilutive effect of options and warrants outstanding   |                 |                 | 1,853,720    |
| Shares used in computing diluted net income per share | 46,150,593      | 42,373,217      | 40,254,049   |
| Net income per share basic                            | \$ (0.41)       | \$ (0.35)       | \$ 0.14      |
| Net income per share diluted                          | \$ (0.41)       | \$ (0.35)       | \$ 0.13      |

**Stock-Based Compensation**

On January 1, 2006, we adopted Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123(R)), that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The statement eliminates the ability to account for share-based compensation transactions, as we formerly did, using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of operations.

We adopted FAS 123(R) using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. Our consolidated financial statements for periods beginning on or after January 1, 2006 reflect the impact of adopting FAS 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of FAS 123(R).

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. Share-based compensation expense recognized in the consolidated statement of operations during the period ended December 31, 2006 include compensation expense for the share-based compensation awards granted prior to December 31, 2005, based on the grant date fair value estimated in accordance with FAS 123(R). As share-based compensation expense recognized in the statement of operations is based on awards ultimately expected to vest, it will be reduced for estimated forfeitures. FAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

As a result of adopting FAS 123(R), \$537,592 of share-based compensation was charged against income for the period ended December 31, 2006. For the periods ended December 31, 2005 and 2004, the following table illustrates the effect on net income and earnings per share had we applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Share-Based Compensation, to share-based employee compensation.



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|   | 12 Month         | 10 Month     |
|---|------------------|--------------|
|   | Period Ended     | Period Ended |
|   | December 31,     | December 31, |
|   | 2005             | 2004         |
| <b>Net income(loss):</b>                          |                  |              |
| As reported                                       | \$ (14,919,885 ) | \$ 5,229,238 |
| Pro forma adjustment for compensation, net of tax | (1,312,896)      | (703,952)    |
| Pro forma   | \$ (16,232,781)  | \$ 4,525,286 |
| <b>Basic income(loss) per share:</b>              |                  |              |
| As reported                                       | \$ (0.35)        | \$ 0.14      |
| Pro forma   | \$ (0.38)        | \$ 0.12      |
| <b>Diluted income(loss) per share:</b>            |                  |              |
| As reported                                       | \$ (0.35)        | \$ 0.13      |
| Pro forma   | \$ (0.38)        | \$ 0.11      |

The weighted average estimated fair value of stock options granted during the fiscal years ended December 31, 2006 and 2005 and the ten month transition period ended December 31, 2004 were \$1.49, \$2.10 and \$3.78, respectively. These amounts were determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the life of the option. The assumptions used in the Black-Scholes model were as follows for stock options granted in the years ended December 31, 2006 and 2005 and the ten month period ended December 31, 2004:

|                                     | 2006        | 2005    | 2004    |
|-------------------------------------|-------------|---------|---------|
| Risk-free interest rate             | 4.8-5.1%    | 4.3%    | 3.6%    |
| Expected volatility of common stock | 60.4 -62.6% | 62.4%   | 469%    |
| Dividend Yield                      | 0%          | 0%      | 0%      |
| Expected life of options            | 4-5 years   | 5 years | 5 years |

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. Our options do not have the characteristics of traded options, therefore, the option valuation models do not necessarily provide a reliable measure of the fair value of our options.

**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 all of the deferred tax asset will not be realized. (See NOTE Q)

**NOTE B - CONCENTRATION OF CREDIT RISK**

We maintain our cash in three financial institutions. The Federal Deposit Insurance Corporation insures up to \$100,000 per legal entity per financial institution. At December 31, 2006 our uninsured cash balance was approximately \$681,000.

**NOTE C - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand and United States Treasury Bills maturing in less than ninety days from the date of purchase. At December 31, 2006, we did not own any United States Treasury Bills with a maturity of ninety days or longer.

**NOTE D - ACCOUNTS RECEIVABLE**

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Accounts receivable consists of trade accounts receivable resulting from customer sales of artifacts and merchandise. The balances at December 31, 2006 and 2005 are \$443,523 and \$1,527,913, respectively. The balances at December 31, 2006 and 2005 are net of return reserves in the amounts of \$8,445 and \$127,398, respectively.

**Table of Contents****NOTE E - INVENTORY**

Our inventory consists of the following:

|                     | 2006             | 2005              |
|---------------------|------------------|-------------------|
| Artifacts           | \$ 8,488,258     | \$ 9,320,343      |
| Merchandise         | 583,318          | 634,558           |
| Packaging           | 544,661          | 613,407           |
| <br>Total Inventory | <br>\$ 9,616,237 | <br>\$ 10,568,308 |

SS *Republic* recovery operations continued until February 2005. Based on our estimates of the timing of future sales, \$7,353,159 and \$5,839,914 of artifact inventory for the fiscal years ended 2006 and 2005 were classified as non-current.

The recorded amount of the SS *Republic* artifacts represents the accumulated capitalized costs of recovery and conservation of these items as follows:

|   | 2006             | 2005             |
|---|------------------|------------------|
| At beginning of year                      | \$ 9,320,343     | \$ 9,220,118     |
| Capitalized recovery costs                |                  | 632,045          |
| Purchases                                 | 124,575          |                  |
| Amounts recorded as artifacts for display | (249,347)        | 73,577           |
| Amounts reported as cost of sales         | (707,313)        | (605,397)        |
| <br>At end of year                        | <br>\$ 8,488,258 | <br>\$ 9,320,343 |

**NOTE F - OTHER CURRENT ASSETS**

Our other current assets consist of the following:

|                                | 2006           | 2005           |
|--------------------------------|----------------|----------------|
| Advances                       | \$ 3,409       | \$ 41,778      |
| Prepaid expenses               | 329,204        | 567,878        |
| Deposits                       | 27,052         | 120,022        |
| <br>Total Other current assets | <br>\$ 359,665 | <br>\$ 729,678 |

For the period ended December 31, 2006, prepaid expenses consist of \$162,514 of prepaid insurance premiums and \$166,689 of other operating prepaid costs. For the period ended December 31, 2005, prepaid expenses consist of \$333,866 of prepaid insurance premiums and \$234,012 of other operating prepaid costs. All prepaid expenses are amortized on a straight-line basis over the term of the underlying agreements. Deposits are held by various vendors for equipment, services, and in accordance with agreements in the normal course of business.

**NOTE G - PROPERTY AND EQUIPMENT**

Property and Equipment consist of the following:



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| Class                           | 2006          | 2005          |
|---------------------------------|---------------|---------------|
| Building, improvements and land | \$ 3,709,873  | \$ 3,973,988  |
| Computers and peripherals       | 676,777       | 639,643       |
| Furniture and office equipment  | 922,193       | 802,082       |
| Vessels and equipment           | 9,276,772     | 6,747,185     |
| Exhibits and related            | 1,888,647     | 2,556,828     |
|                                 | 16,474,262    | 14,719,726    |
| Less: Accumulated depreciation  | (4,539,855)   | (2,738,572)   |
| Property and equipment, net     | \$ 11,934,407 | \$ 11,981,154 |

**Table of Contents****NOTE H ATTRACTION DEVELOPMENT**

Attraction development balances of \$1,261,573 and \$1,172,475 for the periods ended December 31, 2006 and 2005, respectively, represent direct costs for project engineering and design costs and fabrication/construction costs for attraction exhibits in process of completion. During 2005, we transferred \$2,556,827 to property and equipment upon the opening of our New Orleans exhibit. The \$1,261,573 remaining at the end of the current year relates to the in-process construction of our second exhibit. We suspended completion of this second 5,000 square foot traveling exhibit attraction until we relocate our existing attraction.

**NOTE I BUILDING AND LAND**

On July 23, 2004, we purchased a 23,500 square foot two story office building for \$3,058,770 to serve as our corporate and operations headquarters. With tenant improvements the facility is recorded on the books at a cost of \$3,470,523. We currently lease approximately 38% of the space to two tenants.

**NOTE J OTHER LONG TERM ASSETS**

Other long term assets consist of the following:

|                              | 2006         | 2005       |
|------------------------------|--------------|------------|
| Artifacts                    | \$ 572,670   | \$ 323,323 |
| Deposits                     | 568,962      | 552,892    |
| Image use rights, net        | 34,974       | 51,384     |
| Total Other long term assets | \$ 1,176,606 | \$ 927,599 |

The artifact balances for both reportable years consist of artifacts conserved specifically for the company and are not for resale. Deposits include \$432,500 on account with the United Kingdom's Ministry of Defense relating to the expense deposits for the HMS *Sussex* as well as a \$100,000 deposit to fund conservation and documentation of any artifacts recovered. These deposits are refundable from proceeds the United Kingdom would receive if the HMS *Sussex* is discovered and its artifacts monetized. If the HMS *Sussex* is not discovered, the Company is at risk for the entire amounts. Other deposits are held by various vendors for equipment, services, and in accordance with agreements in the normal course of business. Image use rights are amounts paid to utilize, for a period up to five years, copyrighted images in our themed attractions segment. The amount is net of \$15,225 of amortization.

**NOTE K MORTGAGE AND LOANS PAYABLE**

The Company's consolidated mortgages and notes payable consisted of the following at December 31, 2006 and 2005:

|                           | 2006         | 2005         |
|---------------------------|--------------|--------------|
| Revolving credit facility | \$ 3,000,000 | \$ 11,433    |
| Mortgage payable          | 2,473,090    | 1,858,333    |
| Loan payable              | 1,024,000    |              |
|                           | \$ 6,497,090 | \$ 1,869,766 |

**Revolving Credit Facility**

On March 29, 2006, we entered into an Amended and Restated Revolving Credit Agreement with Mercantile Bank. The Amended and Restated Credit Agreement replaces the Company's prior agreement with the Bank. The Amended and Restated Agreement reduced the amount of the commitment from the Bank from a \$6 million revolving credit facility to a \$3 million revolving credit facility. The \$4 million of gold coins previously collateralized were removed from the amended agreement and silver coins collateralized and held by the custodian increased from 10,000 to 15,000 coins. The credit facility has a floating interest rate equal to the LIBOR 30-Day Index Rate plus two hundred sixty five basis

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points (2.65%), requires monthly payments of interest only and is due in full on April 21, 2008. The Company will also be required to pay the Bank an unused line fee equal to 0.25% per annum of the unused portion of the credit line, payable quarterly. Additionally, the Company granted a first lien position on all corporate assets, including a provision not to pledge as collateral our Company-owned vessels. The Company is required to comply with a number of covenants as stated in the Amended and Restated Agreement.

**Table of Contents****Mortgage Payable**

During June 2006, we entered into a mortgage loan for \$2.5 million with Carolina First Bank for the refinancing of our corporate office building. This mortgage replaces the original mortgage held by the Bank of Tampa. The mortgage loan is due on June 1, 2009 with monthly payments based on a 20 year amortization schedule. Interest is at a fixed annual rate of 7.5%. Of the principal amount due on the mortgage, \$59,605 is classified as a current liability. This debt is secured by the related mortgaged real property as well as being cross-collateralized with the coins used to secure the Amended and Restated Revolving Credit Agreement with Mercantile Bank.

Maturities of long-term debt associated with the mortgage payable are as follows:

| <b>Year Ending December 31,</b> |              |
|---------------------------------|--------------|
| 2007                            | \$ 59,605    |
| 2008                            | 64,778       |
| 2009                            | 2,348,707    |
| <br>                            |              |
| Total mortgage payable          | 2,473,090    |
| Less current portion            | 59,605       |
| <br>                            |              |
| Long term portion               | \$ 2,413,485 |

**Loan Payable**

During June 2006, we entered into a loan agreement for \$1.12 million with Mercantile Bank for the purchase of a remotely operated vehicle (ROV) of which the purchase price was \$1.4 million. This loan has a maturity date of September 1, 2009 and bears a variable LIBOR interest rate that is adjusted monthly. The variable rate is calculated by dividing LIBOR by an amount equal to 1.00 minus the Libor Reserve Percentage, plus 3.0%. The interest rate in effect at the end of the period was 7.98%. The first three months of the agreement required interest only payments followed by principle payments of \$32,000 plus interest over the remaining life of the loan. Of the principal amount due on the loan, \$384,000 is classified as a current liability. The ROV is pledged as collateral for this loan.

Maturities of long-term debt associated with the loan payable are as follows:

| <b>Year Ending December 31,</b> |            |
|---------------------------------|------------|
| 2007                            | \$ 384,000 |
| 2008                            | 384,000    |
| 2009                            | 256,000    |
| <br>                            |            |
| Total mortgage payable          | 1,024,000  |
| Less current portion            | 384,000    |
| <br>                            |            |
| Long term portion               | \$ 640,000 |

See Note T Commitments and contingencies for information pertaining to consolidated commitments.

**NOTE L ACCRUED EXPENSES**

Accrued expenses consist of following:

2006                      2005

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|                               |                     |                     |
|-------------------------------|---------------------|---------------------|
| Wages and bonuses             | \$ 400,418          | \$ 558,847          |
| Vessel operations             | 1,093,276           | 639,026             |
| Other operating expenses      | 366,419             | 457,256             |
| Themed attractions            | 86,969              | 188,132             |
| <b>Total accrued expenses</b> | <b>\$ 1,947,082</b> | <b>\$ 1,843,261</b> |

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Vessel operations relates to expenditures required to operate our ships such as fuel, repair and maintenance and port fees. Other operating expenses contain general costs related to, but not limited to marketing, book distribution fees, professional services and the attraction and exhibits.

### **NOTE M - RELATED PARTY TRANSACTIONS**

On December 9, 2002, a Georgia limited liability company acquired rights from an unrelated third party through a foreclosure sale to receive 5% of post finance cost proceeds, if any, from shipwrecks that we may recover within a predefined search area of the Mediterranean Sea. The shipwreck we believe to be HMS *Sussex* is located within this search area. Two of our officers and directors owned a 60% interest in the limited liability company until they sold their interests to an unrelated third party in 2005. In the event that political interference precludes the recovery efforts of the project, the officers would be required to buy back their interests.

A construction company, owned by the stepson of an officer of the company, was paid for renovation services on our corporate headquarters building amounting to \$105,259 for the period ended December 31, 2005. Also, the spouse of a Company officer performed logo design services for the period ended December 31, 2005 amounting to \$3,525.

### **NOTE N - SALE OF REVENUE PARTICIPATION CERTIFICATES**

We have sold through private placements of Revenue Participation Certificates ( RPCs ) the right to share in our future revenues derived from the Cambridge project which refers to the 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.

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.

As of April 30, 1999, when the offering was closed, we had sold \$825,000 of a maximum of \$900,000 of the Cambridge RPCs. As a group, the 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 Cambridge project.

Distributions are to be made to each certificate holder within 15 days from the end of each quarterly reporting period in which we receive any cash proceeds from, or as a result of, the Cambridge Project. The Cambridge RPC units constitute restricted securities.

In a private placement, which closed in September 2000, we sold units comprised 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.

When the offering was closed, in September 2000, a total of five \$50,000 units consisting of one Republic RPC and 100,000 shares of Common Stock had been sold, and the cost of each unit was allocated as \$37,500 for the stock and \$12,500 for the RPC. Therefore, a total of \$62,500 was reflected on the books as deferred income from the sale of Republic Revenue Participation Certificates.

As of December 31, 2005 we had sold, in total, \$887,500 of RPCs, which are reflected on the books as Deferred RPC Income to be amortized under the units of revenue method once management can reasonably estimate potential revenue for these projects.

These RPC issues 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.

### **NOTE O - PREFERRED STOCK**

We currently have 6,800,000 shares of Preferred Stock, 510,000 shares of Series A Convertible Preferred Stock and 2,500,000 shares of Series D Convertible Preferred Stock that have been authorized of which only 2,500,000 of the Series D Convertible Preferred Stock is issued and outstanding. The Preferred Stock may be issued in series from time to time with such rights, designations, preferences and limitation as our Board of Directors may determine by resolution.



**Table of Contents****Series D Preferred Stock**

On March 13, 2006 we sold 2,500,000 shares of non-voting Series D Convertible Preferred Stock, par value \$0.0001 per share, at \$3.50 per share to funds managed by two institutional accredited investors pursuant to the terms of a purchase agreement. The Series D Preferred Stock is convertible into Common Stock at a ratio of one (1) share of Common Stock for every one (1) share of Series D Preferred Stock. Proceeds of the private offering were \$8,750,000.

**NOTE P COMMON STOCK OPTIONS AND WARRANTS**

We adopted the 1997 Stock Option Plan on September 8, 1997. Under the terms of the plan, non-statutory options to purchase Common Stock are granted to employees, consultants and non-employee directors at not less than 100% of the fair market value of the shares on the date of grant or the par value thereof whichever is greater. Options currently expire no later than 5 years from the date of grant and are fully vested in two years or less. The cumulative number of shares which may be subject to options issued and outstanding pursuant to the plan is limited to 3,500,000 shares.

On August 3, 2005, our Board of Directors approved and adopted our 2005 Stock Incentive Plan. This plan was submitted to our shareholders and was ratified at the Annual Meeting of Stockholders on May 5, 2006. 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 have reserved 2,500,000 of our authorized but unissued shares of common stock for issuance under the plan and not more than 500,000 of these shares may be used for restricted stock awards and restricted stock units. Any incentive option and any 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.

Additional information with respect to both plan's stock option activity is as follows:

|  | Number of | Weighted Average |
|--|-----------|------------------|
|  | Shares    | Exercise Price   |
| Outstanding at February 29, 2004         | 2,439,000 | \$1.91           |
| Granted                                  | 330,000   | \$5.00           |
| Exercised                                | (237,500) | \$1.18           |
| Cancelled                                | (115,000) | \$3.64           |
| Outstanding at December 31, 2004         | 2,416,500 | \$3.79           |
| Granted                                  | 245,000   | \$3.43           |
| Exercised                                | (602,625) | \$1.12           |
| Cancelled                                | (67,500)  | \$2.27           |
| Outstanding at December 31, 2005         | 1,991,375 | \$2.83           |
| Granted                                  | 1,360,000 | \$3.63           |
| Exercised                                | (330,954) | \$1.35           |
| Cancelled                                | (452,834) | \$3.83           |
| Outstanding at December 31, 2006         | 2,567,587 | \$3.26           |
| Options exercisable at December 31, 2004 | 1,659,000 | \$1.76           |
| Options exercisable at December 31, 2005 | 1,850,250 | \$2.86           |
| Options exercisable at December 31, 2006 | 1,615,921 | \$3.07           |

The aggregate intrinsic values of options exercisable for the fiscal years ended December 31, 2006, 2005 and 2004 were \$949,847, \$2,229,475 and \$1,542,188, respectively. The aggregate intrinsic values of options outstanding for the fiscal years ended December 31, 2006, 2005 and 2004



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were \$958,299, \$2,316,185 and \$1,775,000, respectively. The aggregate intrinsic values of options exercised during the fiscal years ended December 31, 2006, 2005 and 2004 are \$736,275, \$1,688,415 and \$651,313, respectively, determined as of the date of the option exercise. Aggregate intrinsic value represents the positive difference between our closing stock price at the end of a respective period and the exercise price multiplied by the number of relative options. The total fair value of shares vested during the fiscal years ended December 31, 2006, 2005 and 2004 was \$174,993, \$2,062,663 and \$986,300, respectively.

As of December 31, 2006, there was \$1,143,697 of total unrecognized compensation cost related to unvested share-based compensation awards granted to employees under the option plans. That cost is expected to be recognized over a weighted-average period of 1.8 years.

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The following table summarizes information about stock options outstanding at December 31, 2006:

**Stock Options Outstanding**

| Range of<br>Exercise Prices | Number of<br>Shares<br>Outstanding | Weighted Average                          | Weighted                     |
|-----------------------------|------------------------------------|---|------------------------------|
|                             |                                    | Remaining<br>Contractual<br>Life in Years | Average<br>Exercise<br>Price |
| \$1.00 - \$2.50             | 982,421                            | 1.27                                      | \$ 1.94                      |
| \$2.60 - \$5.00             | 1,585,166                          | 3.28                                      | \$ 4.08                      |
|                             | 2,567,587                          | 2.51                                      | \$ 3.26                      |

At December 31, 2004, we had 3,950,000 warrants outstanding. These warrants were issued to one individual in connection with loans made to us, to one consultant for services, to ten individuals in connection with the conversion of loans into common stock, and to 52 individuals who purchased units in a private placement offering.

During the fiscal year ended December 31, 2005, all of the warrants outstanding at December 31, 2004 were exercised. Proceeds of \$9,869,750 were realized from the exercise of these warrants.

During March of 2005, we issued 3,170,000 warrants to six entities in a private placement offering. During the quarter ended September 30, 2005 we issued 100,000 warrants to a vendor for services relating to a marketing program. During three month period ended December 31, 2006 we issued 100,000 warrants to three accredited investors in a private placement offering. Warrants outstanding at December 31, 2006 are as follows:

| Warrants        | Price<br>per Share | Expiration<br>Date |
|-----------------|--------------------|--------------------|
| 3,170,000 ( A ) | \$ 3.50            | 3/09/07            |
| 100,000         | \$ 5.25            | (B)                |
| 100,000         | \$ 4.00            | 11/22/08           |
| 3,370,000       |                    |                    |

(A): See Note W Subsequent events

(B): During the quarter ended September 30, 2005 we issued 100,000 warrants having an exercise price of \$5.25 per share to a vendor for services relating to a marketing program. These warrants become vested and earned based upon future performance of the program, and may not be exercised until vested and earned, therefore expense will not be recorded until the warrants are vested and earned. The warrants have a two year exercise period commencing on the date when the warrants would be vested and earned. At December 31, 2006 these warrants have not been earned nor have they commenced with vesting.

**NOTE Q - INCOME TAXES**

As of December 31, 2006, we had consolidated income tax net operating loss ( NOL ) carryforwards for federal income tax purposes of approximately \$48,361,000. The federal NOL carryforward will expire in various years ending through the year 2026.

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

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|                 | <b>12 Month</b>     | <b>12 Month</b>     | <b>10 Month</b>     |
|-----------------|---------------------|---------------------|---------------------|
|                 | <b>Period Ended</b> | <b>Period Ended</b> | <b>Period Ended</b> |
|                 | <b>December 31,</b> | <b>December 31,</b> | <b>December 31,</b> |
|                 | <b>2006</b>         | <b>2005</b>         | <b>2004</b>         |
| <b>Current</b>  |                     |                     |                     |
| Federal         | \$                  | \$                  | \$                  |
| State           |                     |                     |                     |
|                 | \$                  | \$                  | \$                  |
| <b>Deferred</b> |                     |                     |                     |
| Federal         | \$                  | \$ 3,180,768        | \$ 2,984,843        |
| State           |                     | 100,742             | 478,068             |
|                 | \$                  | \$ 3,281,510        | \$ 3,462,911        |

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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 carryforwards     | \$ 17,802,066 |
| Accrued expenses                     | 218,631       |
| Reserve for accounts receivable      | 2,976         |
| Reserve for deferred costs           | 107,833       |
| Stock option expense                 | 202,841       |
| Less: valuation allowance            | (14,857,487)  |
|                                      | \$ 3,476,860  |
| Deferred tax liability:              |               |
| Prepaid expenses                     | \$ 69,577     |
| Excess of tax over book depreciation | 293,980       |
| Artifacts recovery costs             | 3,042,924     |
| Inventory reserve                    | 628           |
| Fixed asset basis                    | 69,751        |
|                                      | \$ 3,476,860  |
| Net deferred tax asset               | \$            |

As reflected above, we have recorded a net deferred tax asset of \$0 at December 31, 2006. In accordance with SFAS No. 109, *Accounting for Income Taxes*, 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 realizable without the recovery of high value shipwrecks (such as the Sussex) and thus a valuation allowance has been maintained as of December 31, 2006. Our ability to generate net income in future periods is dependent upon the success of our ability to recover and monetize high-value shipwrecks. We were optimistic that our search and recovery efforts in 2006 would have been more successful than we have reported. However, we continue to be confident that we have several potential high-value shipwreck targets which could be recovered in 2007. Our current estimates do not include monetizing any assets for shipwrecks which may be recovered in 2007 or beyond. We will continue to reassess the need for a valuation allowance during each future reporting period.

The change in the valuation allowance is as follow:

|                               |               |                               |              |
|-------------------------------|---------------|-------------------------------|--------------|
| December 31, 2006             | \$ 14,857,487 | December 31, 2005             | \$ 7,791,859 |
| December 31, 2005             | \$ 7,791,859  | December 31, 2004             | \$ 10,993    |
| Change in valuation allowance | \$ 7,065,628  | Change in valuation allowance | \$ 7,780,866 |

Income taxes for the twelve month periods ended December 31, 2006 and 2005 and the ten month period ended December 31, 2004 differ from the amounts computed by applying the effective income tax rate of 34.0% to income taxes as a result of the following:

|              |              |              |
|--------------|--------------|--------------|
| 12 Month     | 12 Month     | 10 Month     |
| Period Ended | Period Ended | Period Ended |

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|  | December 31,   | December 31,   | December 31, |
|--|----------------|----------------|--------------|
|  | 2006           | 2005           | 2004         |
| Expected provision (benefit)               | \$ (6,489,949) | \$ (3,956,231) | \$ 2,955,331 |
| State income taxes net of federal benefits | (243,360)      | (258,626)      | 314,826      |
| Nondeductible (income) expenses            | 12,486         | 23,205         | (6,552)      |
| Stock options exercised                    | (232,127)      |                |              |
| Change in valuation allowance              | 7,065,628      | 7,780,866      | 10,993       |
| Effects of:                                |                |                |              |
| Change in rate estimate                    | (118,363)      | (321,937)      | 101,535      |
| Change in NOL estimate                     |                |                | 87,031       |
| Other, net                                 | 5,685          | 14,233         | (253)        |
| Income tax provision (benefit)             | \$             | \$ 3,281,510   | \$ 3,462,911 |

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During the twelve month periods ended December 31, 2006 and 2005, we recognized certain tax benefits, prior to any valuation allowances, related to stock option plans in the amount of \$51,136 and \$453,110, respectively. If we did not have a full valuation allowance, such benefits would be recorded as an increase in the deferred tax asset and an increase in additional paid-in capital.

**NOTE R MAJOR CUSTOMERS**

During the fiscal year ended December 31, 2006, we had two customers who accounted for 41.3% and 23.7% of our total sales. For the fiscal year ended December 31, 2005 we had two customers who accounted for 45.7% and 10.4% of our total sales.

**NOTE S SEGMENT REPORTING**

SFAS 131, Disclosures about Segments of an Enterprise and Related information, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. The Company manages and evaluates the operating results of the business in two primary segments, shipwreck exploration and themed attractions. Because of the expansion of our themed attractions, we began reporting segment information for the three and nine months ended September 30, 2005.

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

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

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

We held the grand opening of our first themed attraction, *Odyssey's Shipwreck & Treasure Adventure*, on August 27, 2005, at the Jax Brewery complex in the French Quarter of New Orleans. The attraction was closed early on the grand opening day due to Hurricane Katrina. We re-opened the attraction in February 2006 and closed it again in September 2006 because of market conditions in New Orleans. Odyssey received approximately \$1,200,000 in the fourth quarter 2006 as final insurance settlement on our claim for damages and business interruption due to the hurricane. Proceeds relating to our business interruption coverage are approximately \$802,000 and are recorded as Other income. As a result of our lease termination in New Orleans, we accelerated the estimated useful lives of certain assets and leasehold improvements in 2006. This acceleration resulted in additional expenses of approximately \$900,000 as of December 31, 2006. While the attraction is presently closed, we plan to relocate it to another market in 2007 and continue to research alternatives. We suspended completion of our second 5,000 square foot traveling exhibit attraction until we relocate our existing attraction.

|  | Shipwreck   | Themed      |              |
|--|-------------|-------------|--------------|
| (amounts in thousands)                       | Exploration | Attractions | Consolidated |
| <b>Segment Information</b>                   |             |             |              |
| <i>Twelve months ended December 31, 2006</i> |             |             |              |
| Revenues from external customers             | \$ 4,844    | \$ 220      | \$ 5,064     |
| Income (loss) before income taxes            | \$ (17,073) | \$ (2,015)  | \$ (19,088)  |
| Segment assets                               | \$ 23,907   | \$ 3,301    | \$ 27,208    |
| <i>Twelve months ended December 31, 2005</i> |             |             |              |
| Revenues from external customers             | \$ 9,983    | \$ 54       | \$ 10,037    |
| Income (loss) before income taxes            | \$ (9,499)  | \$ (2,139)  | \$ (11,638)  |
| Segment assets                               | \$ 25,349   | \$ 4,841    | \$ 30,190    |



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### **NOTE T COMMITMENTS AND CONTINGENCIES**

#### **Rights to Future Revenues, If Any**

We have sold the rights to share in future revenues, if any, with respect to the Seattle (formerly Republic ) and Cambridge projects and have recorded \$887,500 as Deferred Income From Revenue Participation Certificates (See NOTE N). We are contingently liable to share the future revenue of these projects only if revenue is derived from these specific projects.

To date, the only income derived from these projects resulted in a one time revenue distribution payment of \$12,986 to the holders of the Cambridge RPC s.

Revenue from the SS *Republic* shipwreck or its cargo are not subject to revenue sharing.

In addition, on May 26, 1998, we signed an agreement with a subcontractor that entitled it to receive 5% of the post finance cost proceeds from any shipwrecks in a predefined search area of the Mediterranean Sea. A shipwreck we have found, which we believe to be the HMS *Sussex*, is located within the specified search area and we will be responsible to share future revenues, if any, from this shipwreck. On December 9, 2002, a Georgia limited liability company acquired the 5% interest from the subcontractor through a foreclosure sale (see NOTE M).

#### **Legal Proceedings**

On or about December 14, 2004 a complaint was filed against seven defendants including the Company in the Court of Common Pleas in the Ninth Judicial Circuit, County of Charleston, in the State of South Carolina. The complaint was filed by Republic & Eagle Associates, Inc. and Sea Miners, Inc. against John Morris, Greg Stemm, John Lawrence, John Balch, Daniel Bagley, Seahawk Deep Sea Technologies, Inc. ( Seahawk ) and the Company. The plaintiffs' allegations include breach of fiduciary duty, civil conspiracy and breach of contract based primarily upon an alleged contract(s) between the plaintiffs and Seahawk dated May 16, 1995 dealing with the search for the SS *Republic*. The plaintiffs allege that their research which was provided to Seahawk led to the discovery of the SS *Republic* and they seek an unspecified amount of damages and public recognition of their contribution. On February 18, 2005, John Morris, Greg Stemm, Daniel Bagley, and the Company filed their Notice of Motion and Motion to Dismiss Defendants John Morris, Greg Stemm, Daniel Bagley and Odyssey Marine Exploration, Inc. (the Motion ). In the Motion, the defendants allege that the complaint should be dismissed because, among other things, the South Carolina court does not have jurisdiction over them, the action was filed in an improper venue, plaintiffs lack the capacity to maintain the action, and the action should be barred based on the Doctrine of Forum Non Conveniens. The court granted the Motion and dismissed the case for lack of personal jurisdiction on June 9, 2006. The plaintiffs subsequently filed a Motion for Rehearing, and after further argument on the issues, the judge reversed his decision and entered an order denying the defendants' motion to dismiss on February 27, 2007. The defendants filed a Motion to Re-consider the order granting the plaintiffs' motion for reconsideration and denying defendants' motion to dismiss on March 12, 2007. Management believes the lawsuit is without merit and intends to vigorously defend the action.

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

#### **Partnering Agreement**

On September 27, 2002, we entered into an agreement (the Agreement ) with the Government of the United Kingdom of Great Britain and Northern Ireland (the British Government ). The Agreement allows us to conduct an archaeologically sensitive exploration of the shipwreck believed to be HMS *Sussex* and to recover artifacts and cargoes from the wreck site.

The Agreement required us to submit a Project Plan (the Plan ) to the British Government concerning the equipment, personnel and methodologies we intend to use in the exploration of the shipwreck, and the conservation and documentation of any artifacts and cargo that may be recovered. We submitted our Plan to the government on November 11, 2002, and received approval on May 22, 2003.

We have paid a 5,000 pounds (approximately \$7,845) refundable license fee and an expense deposit of 250,000 pounds (\$432,500) for the British Government's expenses in connection with the project. The deposit is not refundable if the project is not successful. At such time as we represent to the British Government that we have recovered \$3.5 million worth of cargo and/or artifacts, all funds advanced for the British Government's expenses will be returned to us. We were also required to fund a \$100,000 deposit to ensure that funds are available for the conservation and documentation of any artifacts recovered. The Agreement provides a mechanism for raising or lowering the deposit amount depending upon the quantity and condition of the artifacts that need to be conserved and documented.





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The following sharing arrangements have been agreed upon with respect to the aggregate amount of the appraised values and/or selling prices of the artifacts, net of agreed selling expenses:

| Range                         | British    |         |
|-------------------------------|------------|---------|
|                               | Government | Odyssey |
| \$0 - \$45 million            | 20%        | 80%     |
| \$45 million to \$500 million | 50%        | 50%     |
| Above \$500 million           | 60%        | 40%     |

In addition to the percentages specified above, we will also pay the British Government 10% of any net income we derive from intellectual property rights associated with the project.

We also received the exclusive worldwide right to use the name *HMS Sussex* in connection with sales and marketing of merchandise (exclusive of artifacts) related to the wreck, and the British Government will receive 3% of the gross sales of such merchandise.

The Agreement is for a period of 20 years, and may only be terminated if the shipwreck is not the *HMS Sussex* or if we are in serious breach of our obligations under the Agreement.

**Other commitments and contingencies**

At December 31, 2006, the Company's future contractual obligations are as follows:

| (dollars in thousands)         | Payments due by period |              |            |              |      |      | More than 5 years |
|--------------------------------|------------------------|--------------|------------|--------------|------|------|-------------------|
|                                | Total                  | 2007         | 2008       | 2009         | 2010 | 2011 |                   |
| <b>Contractual Obligations</b> |                        |              |            |              |      |      |                   |
| Long term debt                 | \$ 6,497,090           | \$ 3,443,605 | \$ 448,778 | \$ 2,604,707 | \$   | \$   | \$                |
| Interest on debt               | 811,161                | 498,178      | 217,445    | 95,538       |      |      |                   |
| Operating leases               | 124,694                | 87,783       | 36,911     |              |      |      |                   |
| Total contractual obligations  | \$ 7,432,945           | \$ 4,029,566 | \$ 703,134 | \$ 2,700,245 | \$   | \$   | \$                |

Long term debt represents amounts due on our existing mortgage for our office building, line of credit and note payable. Operating leases consists of our lease on our conservation lab in Tampa.

See Note K Mortgage and loans payable

**Material Trends and Uncertainties**

The results of operations for the immediate two preceding fiscal years produced net operating losses. We anticipate we will continue to incur net losses in 2007. Our ability to generate net income in future periods is dependent upon the success of our ability to recover and monetize high-value shipwrecks. We believe we have several potential high-value shipwreck targets which could be recovered in 2007. Our current 2007 business plan estimates our cash requirements for operations and capital expenditures will range from \$18 million to \$22 million. Based upon our \$2.4 million 2006 year end cash position, recent equity offering and projected 2007 revenues, we estimate an additional cash requirement of \$5 million to \$7 million to meet our projected business plan requirements. In May 2007, we have a potential exercise of \$3.50 warrants for \$7.7 million. However, if the warrants expire, we will be required to raise additional financing to fund our projected business plan. While we have been successful in raising the necessary funds in the past, there can be no assurance we can continue to do so. We also cannot guarantee that the sales of our products and other available cash sources will generate sufficient cash flow to meet our projected cash requirements in 2007. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to reduce our exploration and development efforts and overhead to a level for which funding can be secured.

**NOTE U RECENTLY ISSUED ACCOUNTING STANDARDS**

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of FIN 48 on our consolidated financial position, results of operations, and cash flows.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ( FAS 157 ). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

**NOTE V - QUARTERLY FINANCIAL DATA - UNAUDITED**

The following tables present certain unaudited consolidated quarterly financial information for each of the eight quarters ended December 31, 2006. This quarterly information has been prepared on the same basis as the Consolidated Financial Statements and includes all adjustments necessary to state fairly the information for the periods presented.

|  | Fiscal Year Ended December 31, 2006 |              |              |              |
|--|-------------------------------------|--------------|--------------|--------------|
|  | Quarter Ending                      |              |              |              |
|  | March 31                            | June 30      | September 30 | December 31  |
| Revenue - net                          | \$ 865,179                          | \$ 1,957,834 | \$ 586,778   | \$ 1,654,129 |
| Gross profit                           | 750,849                             | 1,698,227    | 283,589      | 1,243,425    |
| Net income                             | (3,928,687)                         | (4,191,439)  | (6,190,777)  | (4,777,182)  |
| Basic and diluted net income per share | \$ (0.09)                           | \$ (0.09)    | \$ (0.13)    | \$ (0.10)    |

|  | Fiscal Year Ended December 31, 2005 |              |              |              |
|--|-------------------------------------|--------------|--------------|--------------|
|  | Quarter Ending                      |              |              |              |
|  | March 31                            | June 30      | September 30 | December 31  |
| Revenue - net                          | \$ 3,349,516                        | \$ 3,825,818 | \$ 986,682   | \$ 1,874,559 |
| Gross profit                           | 3,133,235                           | 3,472,009    | 796,049      | 1,537,269    |
| Net income                             | (11,906)                            | (1,080,667)  | (3,121,083)  | (10,706,229) |
| Basic and diluted net income per share | \$                                  | \$ (0.03)    | \$ (0.07)    | \$ (0.23)    |

**NOTE W - SUBSEQUENT EVENTS**

On January 24, 2007, we issued and sold an aggregate of 2,200,000 shares of its Series D Convertible Preferred Stock ( Series D Preferred Stock ) at a price of \$3.00 per share, for an aggregate purchase price of \$6.6 million in cash, pursuant to a Series D Convertible Preferred Stock Purchase Agreement (the Purchase Agreement ). In connection with the transaction, the Company also (a) issued the investors warrants to purchase an aggregate of 440,000 additional shares of Series D Preferred Stock with an exercise price of \$4.00 per share and an expiration date of January 24, 2009, and (b) issued to certain of the investors warrants to purchase an aggregate of 2,200,000 shares of Series D Preferred Stock with an exercise price of \$3.50 per share and an expiration date of May 15, 2007, in exchange for the cancellation and surrender of warrants to purchase Common Stock held by such investors with an exercise price of \$3.50 per share of Common Stock and an expiration date of March 9, 2007.

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**SCHEDULE II - VALUATION and QUALIFYING ACCOUNTS**

**For the Fiscal Years of 2004, 2005 and 2006**

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

|   | <b>Balance at</b> | <b>Charged</b>     | <b>(Credited)</b> | <b>Charged</b>  | <b>Balance at</b> |
|---|-------------------|--------------------|-------------------|-----------------|-------------------|
|   | <b>Beginning</b>  | <b>(Credited)</b>  | <b>to Other</b>   | <b>Accounts</b> | <b>End of</b>     |
|   | <b>of Year</b>    | <b>to Expenses</b> | <b>Deductions</b> | <b>Year</b>     | <b>Year</b>       |
| Deferred income tax asset Valuation allowance |                   |                    |                   |                 |                   |
| 2004  |                   |                    |                   | 10,993          | 10,993            |
| 2005  | 10,993            | 7,780,866          |                   |                 | 7,791,859         |
| 2006  | 7,791,859         | 7,065,628          |                   |                 | 14,857,487        |

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunder duly authorized.

ODYSSEY MARINE EXPLORATION, INC.

Dated: March 16, 2007

By:

/s/ John C. Morris

**Co-Chairman of the Board, President & Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| <b>SIGNATURE</b>              | <b>TITLE</b>  | <b>DATE</b>    |
|-------------------------------|---|----------------|
| /s/ JOHN C. MORRIS            | Co-Chairman of the Board, President and               | March 16, 2007 |
| <b>John C. Morris</b>         | Chief Executive Officer (Principal Executive Officer) |                |
| /s/ GREGORY P. STEMM          | Co-Chairman of the Board and Vice President           | March 16, 2007 |
| <b>Gregory P. Stemm</b>       |   |                |
| /s/ MICHAEL J. HOLMES         | Chief Financial Officer (Principal Financial Officer) | March 16, 2007 |
| <b>Michael J. Holmes</b>      |   |                |
| /s/ JAY A. NUDI               | Controller  | March 16, 2007 |
| <b>Jay A. Nudi</b>            | (Principal Accounting Officer)                        |                |
| /s/ GEORGE KNUTSSON           | Director  | March 16, 2007 |
| <b>George Knutsson</b>        |   |                |
| /s/ DAVID J. SAUL             | Director  | March 16, 2007 |
| <b>David J. Saul</b>          |   |                |
| /s/ GEORGE E. LACKMAN         | Director  | March 16, 2007 |
| <b>George E. Lackman, Jr.</b> |   |                |
| /s/ DAVID J. BEDERMAN         | Director  | March 16, 2007 |
| <b>David J. Bederman</b>      |   |                |

**Table of Contents****EXHIBITS INDEX****Exhibit**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 3.1           | Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-KSB for the year ended February 28, 2001)   |
| 3.2           | Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Report on Form 8-K dated February 28, 2006)   |
| 3.3           | Designation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.3 to the Company's Report on Form 8-K dated February 28, 2001)  |
| 3.4           | Amended Certificate of Designation of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.4 to the Company's Report on Form 8-K dated September 19, 2002)  |
| 3.5           | Certificate of Designation of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K dated March 13, 2006)  |
| 3.6           | Certificate of Amendment to Certificate of Designation of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K dated January 22, 2007)  |
| 4.1           | Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed November 22, 2006)   |
| 4.2           | Form of Warrant to Purchase Common Stock (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed November 22, 2006)  |
| 10.1          | 1997 Stock Option Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-KSB for the year ended February 28, 2001)   |
| 10.2          | Partnering Agreement Memorandum Concerning the Shipwreck of HMS <i>Sussex</i> , dated September 27, 2002 (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-QSB For the quarter ended August 31, 2002) |
| 10.3          | Revolving Credit Agreement with Mercantile Bank dated April 21, 2005 (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K For the year ended December 31, 2005)  |
| 10.4          | Revolving Credit Note to Mercantile Bank dated April 21, 2005 (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K For the year ended December 31, 2005)   |
| 10.5          | Security Agreement with Mercantile Bank dated April 21, 2005 (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K For the year ended December 31, 2005)  |
| 10.6          | Lease Agreement dated June 1, 2005 with Jackson Brewery Millhouse, LLC, for attraction exhibit space (incorporated by reference to Exhibit 10.14 to the Company's Report on Form 8-K dated June 2, 2005)                                    |
| 10.7          | 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.14 to the Company's Report on Form 8-K dated August 3, 2005)  |
| 10.8          | Amended and Restated Revolving Credit Agreement with Mercantile Bank dated March 29, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K dated April 3, 2006)   |
| 10.9          | Amended and Restated Credit Note with Mercantile Bank dated March 29, 2006 (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K dated April 3, 2006)  |
| 10.10         | Amended and Restated Security Agreement with Mercantile Bank dated March 29, 2006 (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 8-K dated April 3, 2006)   |
| 10.11         | Series D Convertible Preferred Stock Purchase Agreement (filed herewith electronically)   |
| 10.12         | Warrant to Purchase Series D Convertible Preferred Stock (D1) (filed herewith electronically)   |
| 10.13         | Warrant to Purchase Series D Convertible Preferred Stock (D2) (filed herewith electronically)   |
| 10.14         | First Amendment to Lease Agreement dated January 31, 2007, with Jackson Brewery Millhouse, LLC, for attraction exhibit space rental (filed herewith electronically)   |

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21 Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K For the year ended December 31, 2005)



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**Exhibit**

| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 23.1          | Consent of Ferlita, Walsh & Gonzalez, P.A., Independent Accountants (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)                        |