ODYSSEY MARINE EXPLORATION INC
Form 10-Q
August 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number 001-31895

ODYSSEY MARINE EXPLORATION, INC.

(Exact name of registrant as specified in its charter)

Nevada	**84-1018684**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5215 W. Laurel Street, Tampa, Florida 33607

(Address of principal executive offices) (Zip code)

(813) 876-1776

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

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

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

Large accelerated filer: ¨	Accelerated filer: x
Non-accelerated filer: ¨ (Do not check if a smaller Reporting company)	Smaller reporting company: ¨

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

The number of outstanding shares of the registrant s Common Stock, $.0001 par value, as of July 18, 2012 was 73,910,398.

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,535,720	$ 7,971,794
Restricted cash	197,428	212,788
Accounts receivable, net	248,920	500,626
Inventory	543,251	557,151
Other current assets	4,249,735	779,478
Total current assets	8,775,054	10,021,837
PROPERTY AND EQUIPMENT		
Equipment and office fixtures	16,455,203	15,450,467
Building and land	4,703,359	4,703,359
Accumulated depreciation	(14,267,505)	(13,620,956)
Total property and equipment	6,891,057	6,532,870
NON-CURRENT ASSETS		
Inventory	5,422,822	5,501,808
Restricted cash	172,596	251,791
Investment in unconsolidated entity		
Other non-current assets	1,108,454	1,106,097
Total other assets	6,703,872	6,859,696
Total assets	$ 22,369,983	$ 23,414,403
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 5,466,640	$ 1,105,902
Accrued expenses and other	1,732,861	2,061,974
Deferred revenue	3,545,140	3,545,140
Derivative liabilities	12,077,965	7,333,293
Mortgage and loans payable	12,864,559	4,802,930
Total current liabilities	35,687,165	18,849,239
LONG-TERM LIABILITIES		
Mortgage and loans payable	7,579,686	5,690,125
Deferred income from revenue participation rights	8,400,000	8,400,000
Total long-term liabilities	15,979,686	14,090,125
Total liabilities	51,666,851	32,939,364

Commitments and contingencies (Note H)		
Redeemable Series G Convertible Preferred stock	250,000	250,000
STOCKHOLDERS DEFICIT		
Preferred stock - $.0001 par value; 9,361,199 shares authorized; none outstanding		
Preferred stock series D convertible - $.0001 par value; 448,800 shares authorized, respectively; 206,400 issued and outstanding, respectively	21	21
Common stock $.0001 par value; 150,000,000 shares authorized; 73,237,659 and 73,095,384 issued and outstanding, respectively	7,322	7,309
Additional paid-in capital	138,546,690	137,236,462
Accumulated deficit	(168,100,901)	(147,018,753)
Total stockholders deficit	(29,546,868)	(9,774,961)
Total liabilities and stockholders deficit	$ 22,369,983	$ 23,414,403

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

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited

	Three Months Ended		Six Months Ended	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
REVENUE				
Artifact sales and other	$ 133,259	$ 105,024	$ 187,407	$ 453,914
Exhibit	75,000	28,409	100,000	71,402
Expedition	1,218,372	6,611,136	4,038,977	8,313,355
Total revenue	1,426,631	6,744,569	4,326,384	8,838,671
OPERATING EXPENSES				
Cost of sales artifacts and other	89,892	52,561	124,081	226,137
Marketing, general and administrative	2,483,000	2,434,090	4,839,918	4,604,169
Operations and research	9,554,692	5,186,884	14,706,398	8,719,594
Total operating expenses	12,127,584	7,673,535	19,670,397	13,549,900
INCOME (LOSS) FROM OPERATIONS	(10,700,953)	(928,966)	(15,344,013)	(4,711,229)
OTHER INCOME (EXPENSE)				
Interest income	698	149	23,138	535
Interest expense	(1,679,871)	(105,710)	(2,665,200)	(203,611)
Change in derivative liabilities fair value	(3,212,901)	704,562	(3,089,832)	(584,622)
(Loss) from unconsolidated entity		(1,595,000)		(1,595,000)
Other	2,677	(5,588)	3,759	(10,661)
Total other income (expense)	(4,889,397)	(1,001,587)	(5,728,135)	(2,393,359)
LOSS BEFORE INCOME TAXES	(15,590,350)	(1,930,553)	(21,072,148)	(7,104,588)
Income tax benefit (provision)				
NET LOSS	$ (15,590,350)	$ (1,930,553)	$ (21,072,148)	$ (7,104,588)
NET LOSS PER SHARE				
Basic and diluted (See NOTE B)	$ (.21)	$ (.07)	$ (.29)	$ (.15)
Weighted average number of common shares outstanding				
Basic and diluted	73,234,692	67,873,487	73,199,914	67,512,776

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

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (21,072,148)	$ (7,104,588)
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation and amortization	798,179	1,017,142
Loan fee amortization	212,006	
Change in derivatives liabilities fair value	3,089,832	584,622
Note payable interest accretion	1,755,343	
Loss in unconsolidated entity		1,595,000
Investment in unconsolidated entity		(1,595,000)
Share-based compensation	918,088	898,314
(Increase) decrease in:		
Restricted cash	94,555	449,678
Accounts receivable	251,706	(655,086)
Inventory	92,886	224,166
Other assets	(3,285,464)	(257,137)
Increase (decrease) in:		
Accounts payable	4,350,738	(1,180,656)
Accrued expenses and other	(332,603)	(1,304,594)
Deferred revenue		3,127,010
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(13,126,882)	(4,201,129)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(597,024)	(401,337)
NET CASH (USED) BY INVESTING ACTIVITIES	(597,024)	(401,337)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	44,625	15,680,077
Deferred income from revenue participation rights		7,312,500
Dividends	(10,000)	(240,000)
Redemption of Series G Preferred		(757,500)
Broker commissions and fees on capital raises	(400,000)	
Proceeds from issuance loan payable	9,994,483	
Repayment of mortgage and loans payable	(341,276)	(99,488)
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,287,832	21,895,589
NET INCREASE (DECREASE) INCREASE IN CASH	(4,436,074)	17,293,123
CASH AT BEGINNING OF PERIOD	7,971,794	235,762
CASH AT END OF PERIOD	$ 3,535,720	$ 17,528,885
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 701,106	$ 204,174
Income taxes paid	$	$
NON-CASH TRANSACTIONS:		
Accrued compensation paid by equity instruments	$ 347,528	$ 229,564

Equipment purchased with financing	$	588,499	$	
Acquired non-controlling interest of Dorado Resources, Ltd. with the assumption of a subscription payable of an equal amount (See NOTE F)	$		$	
Offset account receivable with subscription payable (See NOTE F)	$		$	1,998,800
Series G Preferred Stock dividend declaration	$	10,000	$	
Series G Preferred Stock accretion	$		$	2,217,409

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

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Odyssey Marine Exploration, Inc. and subsidiaries (the Company, Odyssey, us, we or our) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

In the opinion of management, these financial statements reflect all adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position as of June 30, 2012, and the results of operations and cash flows for the interim periods presented. Operating results for the six-month period ended June 30, 2012, are not necessarily indicative of the results that may be expected for the full year.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Odyssey Marine Services, Inc., OVH, Inc., Odyssey Retriever, Inc. and Odyssey Marine Entertainment, Inc. All significant inter-company transactions and balances have been eliminated. Equity investments in which we exercise significant influence but do not control and are not the primary beneficiary are accounted for using the equity method. All significant inter-company and intra-company transactions and balances have been eliminated.

Use of Estimates

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

Revenue Recognition and Accounts Receivable

Revenue from product sales is recognized at the point of sale when legal title transfers. Legal title transfers when product is shipped or is available for shipment to customers. In accordance with Topic A.1.in SAB 13: Revenue Recognition, exhibit and expedition charter revenue is recognized ratably when realized and earned as time passes throughout the contract period as defined by the terms of the agreement. Bad debts are recorded as identified and, from time to time, a specific reserve allowance will be established when required. A return allowance is established for sales which have a right of return. Accounts receivable is stated net of any recorded allowances.

Cash, Cash Equivalents and Restricted Cash

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

Inventory

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

Packaging materials and merchandise are recorded at average cost. We record our inventory at the lower of cost or market.

Long-Lived Assets

Our policy is to recognize impairment losses relating to long-lived assets in accordance with the Accounting Standards Codification (ASC) topic for Property, Plant and Equipment. Decisions are based on several factors, including, but not limited to, management s plans for future operations, recent operating results and projected cash flows.

Comprehensive Income

Securities with a maturity greater than three months from purchase date are deemed available-for-sale and carried at fair value. Unrealized gains and losses on these securities are excluded from earnings and reported as a separate component of stockholders equity. At June 30, 2012, we did not own securities with a maturity greater than three months.

Property and Equipment and Depreciation

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

Earnings Per Share

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

Diluted EPS reflects the potential dilution that would occur if dilutive securities and other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in our earnings. We use the treasury stock method to compute potential common shares from stock options and warrants and the if-converted method to compute potential common shares from Preferred Stock, Convertible Notes or other convertible securities. As it relates solely to the Senior Convertible Note, for diluted earnings per share, the Company uses the more dilutive of the if-converted method or two-class method. When a net loss occurs, potential common shares have an anti-dilutive effect on earnings per share and such shares are excluded from the Diluted EPS calculation.

At June 30, 2012 and 2011, weighted average common shares outstanding year-to-date were 73,199,914 and 67,512,776, respectively. For the periods ended June 30, 2012 and 2011, 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 following table represent potential common shares calculated using the treasury stock method from outstanding options, stock awards and warrants that were excluded from the calculation of diluted EPS:

	Three Months Ended		Six Months Ended	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Average market price during the period	$ 3.05	$ 3.51	$ 3.11	$ 3.29
In the money potential common shares from options excluded	213,311	249,392	239,119	202,867
In the money potential common shares from warrants excluded	1,045,869	1,553,474	1,119,803	1,330,160

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Out of the money options and warrants excluded:				
Stock options with an exercise price of $3.30 per share	100,000		100,000	
Stock options with an exercise price of $3.50 per share	245,000		245,000	875,000
Stock options with an exercise price of $3.51 per share	984,670	984,670	984,670	984,670
Stock options with an exercise price of $3.53 per share	211,900	211,900	211,900	211,900
Stock options with an exercise price of $4.00 per share	52,500	52,500	52,500	52,500
Stock options with an exercise price of $5.00 per share	300,000	650,000	300,000	650,000
Stock options with an exercise price of $7.00 per share	100,000	100,000	100,000	100,000
Warrants with an exercise price of $3.60 per share	1,562,500		1,562,500	
Warrants with an exercise price of $5.25 per share	100,000	100,000	100,000	100,000
Total anti-dilutive warrants and options excluded from EPS	3,656,570	2,099,070	3,656,570	2,974,070

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Potential common shares from Convertible Preferred Stock excluded from EPS	346,400	3,146,400	346,400	3,146,400

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Potential common shares from unvested restricted stock awards excluded from EPS	467,164	495,548	463,234	416,871

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Net loss	$ (15,590,350)	$ (1,930,553)	$ (21,072,148)	$ (7,104,588)
Accretion of Series G Preferred Stock		(1,564,578)		(1,987,977)
Fair market value of warrants issued to Series G Preferred Stock stockholders		(906,150)		(906,150)
Cumulative dividends on Series G Preferred Stock	(5,000)	(105,000)	(15,000)	(238,479)
Numerator, basic and diluted net income (loss) available to stockholders	$ (15,595,350)	$ (4,506,281)	$ (21,087,194)	$ (10,237,194)

Denominator:

Shares used in computation basic:								
Weighted average common shares outstanding		73,234,692		67,873,487		73,199,914		67,512,776
Shares used in computation diluted:								
Weighted average common shares outstanding		73,234,692		67,873,487		73,199,914		67,512,776
Dilutive effect of potential common shares outstanding								
Shares used in computing diluted net income per share		73,234,692		67,873,487		73,199,914		67,512,776
Net loss per share basic	$	(0.21)	$	(0.07)	$	(0.29)	$	(0.15)
Net loss per share diluted	$	(0.21)	$	(0.07)	$	(0.29)	$	(0.15)

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Income Taxes

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

Stock-based Compensation

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

Fair Value of Financial Instruments

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

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

Fair Value Hierarchy

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

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

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

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

Redeemable Preferred Stock

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

Subsequent Events

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

NOTE C RESTRICTED CASH

As required by the mortgage loan entered into with Fifth Third Bank (the Bank) on July 11, 2008, $500,000 was deposited into an additional interest-bearing account from which principal and interest payments are made. On each anniversary of the mortgage, we are to deposit into the account an amount sufficient to ensure a balance of $500,000 for principal and interest payments for the subsequent year of the mortgage. The balance in this restricted cash account is held as additional collateral by the Bank and is not available for operations. Any funds remaining in this account at the end of the mortgage term will be returned to the Company. The balance in this account at June 30, 2012, was $370,024.

NOTE D ACCOUNTS RECEIVABLE

The accounts receivable balances at June 30, 2012 and December 31, 2011 were $248,920 and $500,626, respectively, which are net of reserves for doubtful accounts of $4,820,593 and $6,390,593, respectively. As described in NOTE F, Neptune Minerals, Inc. (NMI) completed a 2011 share exchange with DOR shareholders which resulted in an executed assignment and assumption agreement, whereby NMI assumed $8,227,675 of the outstanding debt of DOR owed to us. The $4,820,593 reserve at June 30, 2012 is for the remaining Neptune Minerals, Inc. (NMI) accounts receivable assumed from DOR. The $6,390,593 reserve at December 31, 2011 was comprised of the $1,570,000 *Shantaram* and $4,820,593 for the DOR receivable that was assumed by NMI in 2011 and discussed in NOTE F.

At December 31, 2011, we had a reserve for the *Shantaram* receivable of $1,570,000 owed according to the terms of sale of research for the *Shantaram* project. During the three-month period ending March 31, 2012, management offset the amount due against its reserve. According to our agreement, we have the right to receive additional participation amounts, if any, up to approximately 11% from the first £100 million and approximately 7% thereafter from recovery distributions after recovery costs.

NOTE E INVENTORY

Our inventory consisted of the following:

	June 30, 2012	December 31, 2011
Artifacts	$ 5,815,522	$ 5,879,137
Packaging	143,189	159,160
Merchandise	387,955	412,865
Merchandise reserve	(380,593)	(392,203)
Total inventory	$ 5,966,073	$ 6,058,959

Of these amounts, $5,422,822 and $5,501,808 are classified as non-current as of June 30, 2012 and December 31, 2011, respectively.

NOTE F INVESTMENTS IN UNCONSOLIDATED ENTITIES

Neptune Minerals, Inc.

During the quarter ended December 31, 2009, we invested $500,000 for a 25% interest (five membership units) in SMM Project, LLC (SMM) to pursue opportunities in the exploration of deep-ocean gold and copper deposits. SMM purchased a majority interest in Bluewater Metals Pty, Ltd. (Bluewater), an Australian company with licenses for mineral exploration of approximately 150,000 square kilometers of ocean floor in territorial waters controlled by four different countries in the South Pacific. In April 2010, SMM was acquired by Dorado Ocean Resources, Ltd. (DOR) through a share exchange. At that time, DOR also acquired the remaining interest in Bluewater. We were issued 450 DOR shares in exchange for our surrendered units in SMM. We also acquired an additional 1,200 shares of DOR valued at $2,000,000 that resulted in a 41.25% ownership of DOR. Ultimately we held a 40.8% ownership of DOR. Under the terms of the Share Subscription Agreement (subscription payable), we had the option to pay for this investment in cash, provide marine services to DOR over a three-year period commencing April 2010 or exercise our contractual right to offset against the $2,000,000 marine services accounts receivable owed to us. During 2011, we exercised our contractual right and offset these two amounts. The focus of DOR was on the exploration and monetization of gold- and copper-rich Seafloor Massive Sulfide (SMS) deposits.

During 2011, we were engaged by Neptune Minerals, Inc. (NMI) and its affiliates to perform marine services relating to deep-sea mining. The agreements provided for payments in cash and Class B shares of non-voting common stock of NMI. In 2011, we earned 2,066,600 shares of the Class B non-voting common stock from these engagements. During this same period, NMI completed a share exchange with DOR shareholders whereby each one outstanding share of DOR was exchanged for 1,000 shares of NMI Class B non-voting common stock. We received 1,650,000 shares of NMI Class B non-voting common stock for our 1,650 DOR shares pursuant to the share exchange. In connection with this share exchange, NMI executed an assignment and assumption agreement, whereby NMI assumed $8,227,675 of the outstanding debt DOR owed to us. Additionally in 2011, we executed a debt conversion agreement with NMI, whereby we converted $2,500,000 of the debt owed to us for 2,500,000 shares of NMI Class B non-voting common stock. At June 30, 2012, we have a net share position in NMI of 6,216,600 shares, which represents an approximate 31% ownership before any further dilution of the NMI stock.

At June 30, 2012, there is a known loss of $959,000, which is as of December 31, 2011, of DOR (NMI) losses allocable to us that we have not recognized in our income statement because these losses exceeded our investment. Based on the NMI and DOR transaction described above, we believe it is appropriate to allocate these losses to any incremental investment that may be recognized on our balance sheet in NMI. NMI has been unable to provide their financial statements for periods subsequent to December 31, 2011 so we are unable to accurately quantify our share of their loss for the respective periods. With NMI being involved in the capital intensive deep-sea mining and exploration industry as well as not having revenue, their cumulative losses for each of the periods may be several million dollars.

Chatham Rock Phosphate, Ltd.

During the period ended June 30, 2012, we performed deep-sea mining exploratory services for Chatham Rock Phosphate, Ltd. (CRP) valued at $1,680,000. As payment for these services, CRP issued 9,320,348 of ordinary shares to us which represents a 12.2% equity stake in CRP. With CRP being on the New Zealand Stock Exchange and guidance per ASC 320: Debt and Equity Securities regarding readily determinable fair value, we believe it is appropriate to not recognize this amount as an asset nor as revenue.

NOTE G INCOME TAXES

As of June 30, 2012, the Company had consolidated income tax net operating loss (NOL) carryforwards for federal tax purposes of approximately $138 million. The NOL will expire in various years beginning in 2013 and ending through the year 2032. From 2013 through 2023, approximately $8 million of the NOL will expire, from 2024 through 2028, approximately $80.5 million of the NOL will expire and from 2029 through 2032, approximately $50 million of the NOL will expire.

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred tax assets and liabilities are as follows:

Deferred tax assets:	
Net operating loss and tax credit carryforwards	$ 49,796,627
Capital loss carryforward	386,151
Accrued expenses	62,829
Reserve for accounts receivable	2,094,123

Reserve for inventory		133,584
Start-up costs		107,422
Excess of book over tax depreciation		1,158,737
Stock option and restricted stock award expense		1,454,572
Investment in unconsolidated entity		3,707,636
Less: valuation allowance		(57,719,607)
	$	1,182,074
Deferred tax liability:		
Property and equipment basis	$	69,484
Prepaid expenses		1,112,590
	$	1,182,074
Net deferred tax asset	$	

As reflected above, we have recorded a net deferred tax asset of $0 at June 30, 2012. As required by the Accounting for Income Taxes topic in the ASC, we have evaluated whether it is more likely than not that the deferred tax assets will be realized. Based on the available evidence, we have concluded that it is more likely than not that those assets would not be realized without the recovery and rights of ownership or salvage rights of high-value shipwrecks and thus a valuation allowance has been recorded as of June 30, 2012.

The change in the valuation allowance is as follows:

June 30, 2012	$ 57,719,607
December 31, 2011	52,515,797
Change in valuation allowance	$ 5,203,810

Income taxes for the six-month periods ended June 30, 2012 and 2011 differ from the amounts computed by applying the effective federal income tax rate of 34.0% to income (loss) before income taxes as a result of the following:

	June 30, 2012	**June 30, 2011**
Expected (benefit)	$ (7,164,530)	$ (2,415,560)
State income taxes net of federal benefits	(191,873)	(138,430)
Nondeductible expense	8,050	7,920
Stock options and restricted stock awards	240,265	188,855
Derivatives	1,667,465	198,771
Change in valuation allowance	5,203,811	1,752,527
Effects of:		
Change in apportionment estimate		406,193
Change in net operating loss estimate	610,863	
Change in capital loss carryover estimate	(374,051)	
Other, net		(276)
	$	$

During the six-month periods ended June 30, 2012 and 2011 the Company recognized certain tax benefits and (liabilities), prior to any valuation allowances, related to stock option plans in the amounts of $248,038 and $0, respectively. If we did not have a full valuation allowance, such benefits would be recorded as an increase to the deferred tax asset and increase in additional paid in capital.

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

The earliest tax year still subject to examination by a major taxing jurisdiction is 2008.

NOTE H COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On April 16, 2012 Spain filed a motion with the district court for an award of attorney s fees and costs related to the *Black Swan* case. We believe there is no legal basis for such an award in this case and that an unfavorable outcome is not likely.

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

Trends and Uncertainties

Our 2012 business plan contains assumptions which include that several of our planned projects are funded through project debt-type financings, syndications or other partnership opportunities. The business plan expenses include a 90-day charter agreement which we executed with a company to provide a ship and equipment to conduct recovery operations on the *Gairsoppa* and *Mantola* projects. We have recently renewed our term loan with Fifth Third Bank which increased our existing term loan from $3 million to $5 million through July 2013. We amended our senior convertible note and received an additional $8 million in May 2012. We are also permitted under the terms of our senior convertible note agreement to raise additional project indebtedness up to $15 million. In July we executed an agreement with Fifth Third Bank which provided $10 million of project financing collateralized with a portion of the silver from the project. We will also be reimbursed from silver sale proceeds for the costs of the project to-date which are now estimated to be approximately $13 million. We also intend to discuss additional finance opportunities with Fifth Third Bank. We expect to receive cash from silver proceeds beginning in the third and fourth quarter 2012. Based upon our current expectations, we believe our cash position will be sufficient to fund operating cash flows throughout the rest of 2012 taking into account our beginning cash balance, current cash flow expectations and revenues from multiple sources, including projected sales, syndicated projects and other potential financing arrangements. We have experienced several years of net losses resulting in a stockholders deficit. Our capacity to generate net income in future periods is dependent upon our success in recovering and monetizing high-value shipwrecks, realizing capital gains from our investments in other business opportunities or to generate income from mineral exploration activities, charters or other projects. However, it is likely that we could monetize a significant amount of cash from our existing shipwreck projects in 2012 which could fund our operations for future periods. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to raise additional capital or curtail expenses. While we have been successful in raising the necessary funds in the past, there can be no assurance that we can continue to do so in the future.

NOTE I MORTGAGE AND LOANS PAYABLE

The Company s consolidated debt consisted of the following at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Term loan	$ 5,000,000	$ 3,000,000
Face value $10,000,000, 8% Convertible Senior Note Payable	6,762,136	5,316,328
Face value $8,000,000, 9% Convertible Senior Note Payable	6,649,087	
Mortgage payable	2,033,022	2,176,727
	$ 20,444,245	$ 10,493,055

Term Loan

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

On March 30, 2012, the above term loan that was set to mature on April 23, 2012 was amended and increased to $5 million with an expiration date of July 11, 2013. The facility bears floating interest at the one month LIBOR rate according to the Wall Street Journal plus 500 basis points. Any prepayments made in full or in part are without premium or penalty. No restricted cash payments will need to be kept on deposit.

The latest amended term loan is secured by approximately 26,800 numismatic coins recovered from the SS *Republic* shipwreck, which amount will be reduced over the term by the amount of coins sold by the Company. The coins used as collateral are held by a custodian for the security of the Bank. The borrowing base is equal to forty percent (40%) of the eligible coin inventory valued on a rolling twelve-month wholesale average value. The Company is required to comply with a number of customary covenants. The significant covenants included: maintaining insurance on the inventory; ensuring the collateral is free from encumbrances and without the consent of the Bank, the Company cannot merge or consolidate with or into any other corporation or entity nor can the Company enter into a material debt agreement with a third party without approval.

Mortgage Payable

On July 11, 2008, we entered into a mortgage loan with Fifth Third Bank. Pursuant to the Loan Agreement, we borrowed $2,580,000. The loan bears interest at a variable rate equal to the prime rate plus three-fourths of one percent (0.75%) per annum. The loan matures on July 11, 2013, and requires monthly principal payments in the amount of $10,750 plus accrued interest. This loan is secured by a restricted cash balance (See NOTE C) as well as a first mortgage on our corporate office building. This loan contains customary representations and warranties, affirmative and negative covenants, conditions, and other provisions. As a condition to entering the term loan noted above, we were required to amend this loan whereby we are required to pay additional principal to meet an 80% loan-to-value (LTV) based upon an independent real estate appraisal. All additional principal payments have been made.

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

Senior Convertible Note

Initial Note

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

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

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

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

Under the terms of the Warrant, the holder is entitled to exercise the Warrant to purchase up to 1,302,083 shares of our common stock at an initial exercise price of $4.32 per share, during the five-year period beginning on the six-month anniversary

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

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

Additional Note

On May 10, 2012, we issued a second senior convertible note, referred to as the Additional Note, in the original principal amount of $8.0 million, and the number of shares of Odyssey s common stock issuable upon exercise of the warrant increased to 1,562,600. The additional note bears interest at 9.0% per year and will mature on the 30-month anniversary of the initial closing date. The additional note will amortize in equal monthly installments commencing on the eighth-month anniversary of the initial note and may be paid in cash or Odyssey common stock. The Additional Note may be converted into Odyssey s common stock, at the option of the holder, at any time following six months after the date of issuance. Odyssey has a right to redeem the Additional Note. The initial conversion price of the Additional Note is $3.74, subject to reset on the earlier of (x) the date the registration statement registering the offer and sale of the common stock issuable under the notes and the warrants becomes effective and a prospectus contained therein shall be available for the resale by the holder of all of the registrable securities or (y) the six-month anniversary of the additional closing date. The registration statement was declared effective on July 6, 2012 and there was no reset to the conversion price of the Additional Note.

Accounting considerations

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

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

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

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

	Allocation
Initial Note	$ 4,910,862
Compound embedded derivative	2,989,537
Derivative warrants	2,054,601

$ 9,955,000

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

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

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

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

The financing basis allocated to the notes payable and the deferred asset arising from direct finance costs are subject to amortization with periodic charges to interest expense using the effective interest method. Amortization of these components included in interest expense during the three and six months ended June 30, 2012 amounted to $1,257,985 and $1,967,340, respectively. The derivative components are subject to re-measurement to fair value at the end of each reporting period with the change reflected in income. See Note M for information about our derivatives.

NOTE J STOCKHOLDERS DEFICIT

Common Stock

During June 2011, we completed a public offering of 5,520,000 shares of our common stock at $3.05 per share, before underwriting discounts and commissions. This offering was conducted pursuant to an effective shelf registration statement, which is on file with the Securities and Exchange Commission.

During the three-month period ended June 30, 2011, we issued 46,000 shares of common stock to two accredited investors upon exercise of 46,000 outstanding warrants.

During our annual meeting of stockholders on June 1, 2011, an amendment to our Articles of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 150,000,000 was approved by the stockholders.

On May 6, 2010, we issued 1,300,000 shares of common stock to one institutional investor upon conversion of 13 outstanding shares of our Series E Convertible Preferred Stock. This conversion was completed in accordance with the original terms of the Series E Convertible Preferred Stock.

On April 20, 2010, we issued 600,000 shares of common stock to one institutional investor upon conversion of 600,000 outstanding shares of our Series D Convertible Preferred Stock. This conversion was completed in accordance with the original terms of the Series D Convertible Preferred Stock.

During the three-month period ended March 31, 2011, we issued 56,000 shares of common stock to two accredited investors upon exercise of 56,000 outstanding warrants.

Stock-Based Compensation

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

Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. As share-based compensation expense recognized in the statement of operations is based on awards ultimately expected to vest, it can be reduced for estimated forfeitures. The ASC topic Stock Compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The share based compensation charged against income for the six-month periods ended June 30, 2012 and 2011 was $918,088 and $898,314, respectively and for the three-month periods ended June 30, 2012 and 2011 was $529,669 and $449,475, respectively.

The weighted average estimated fair value of stock options granted during the three-month period ended June 30, 2012 was $1.48. We did not issue stock options in the three-month period ended June 30, 2011. The weighted average fair value of stock options granted is determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the life of the option. The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in or variations from these assumptions can materially affect the fair value of the options.

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

NOTE K DEFERRED REVENUE

From time to time, we enter into marine search services contracts associated with shipwreck and deep-sea mining projects. For each contract, revenue is recognized over the contractual period when services are performed as defined by the contract. The period of time a search project remains active varies but usually extends over several months and may be accelerated or extended depending upon operational factors. The marine services obligation was $3,545,140 at each period ended for June 30, 2012 and December 31, 2011 and will be recognized as revenue over the period of time the contractual marine services are provided.

NOTE L CONCENTRATION OF CREDIT RISK

We maintain our cash at one financial institution. From December 31, 2010 to December 31, 2012, all noninterest-bearing transaction accounts are fully insured by the Federal Deposit Insurance Corporation, regardless of the balance of the account, at all insured institutions. At June 30, 2012, our uninsured cash balance was approximately $2,700,000.

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

NOTE M DERIVATIVE FINANCIAL INSTRUMENTS

The following tables summarize the components of our derivative liabilities and linked common shares as of June 30, 2012 and December 31, 2011 and the amounts that were reflected in our income related to our derivatives for the three-month and six-months periods ended June 30, 2012 and 2011:

	June 30, 2012	December 31, 2011
Derivative liabilities:		
Embedded derivatives derived from:		
Senior Convertible Notes	$ 4,912,547	$ 2,521,422
Series G Convertible Preferred Stock	286,335	158,711

	5,198,882	2,680,133
Warrant derivatives		
Senior Convertible Notes	3,191,407	1,898,785
Series G Convertible Preferred Stock	3,687,675	2,754,375
Warrant derivatives	6,879,082	4,653,160
Total derivative liabilities	$ 12,077,964	$ 7,333,293
Common shares linked to derivative liabilities:		
Embedded derivatives:		
Senior Convertible Notes	5,305,800	2,673,797
Series G Convertible Preferred Stock	140,000	140,000
	5,445,800	2,813,797
Warrant derivatives		
Senior Convertible Notes	1,562,500	1,302,083
Series G Convertible Preferred Stock	2,325,000	2,325,000
	3,887,500	3,627,083
Total common shares linked to derivative liabilities	9,333,300	6,440,880

	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Derivative income (expense):				
Unrealized gains (losses) from fair value changes:				
Senior Convertible Notes	$ (1,611,725)	$	$ (1,099,828)	$
Series G Convertible Preferred Stock	(88,697)	476,637	(127,624)	(445,347)
Warrant derivatives	(1,512,479)	227,925	(1,862,380)	(139,275)
Total derivative income (expense)	$ (3,212,901)	$ 704,562	$ (3,089,832)	$ (584,622)

Our Series G Convertible Preferred Stock and Warrant Financing Transaction on October 11, 2010, Series G Convertible Preferred Stock and Warrant Settlement Transaction during April 2011, and Senior Convertible Note and Warrant Financing Transactions on November 8, 2011 and May 10, 2012 gave rise to derivative financial instruments. As more fully discussed in Note Q, we entered into the Series G Convertible Preferred Stock and Warrant Financing Transaction and the Series G Convertible Preferred Stock and Warrant Settlement Transaction on October 11, 2010 and April 14, 2011, respectively. The Series G Convertible Preferred Stock embodied certain terms and features that both possessed all of the conditions of derivative financial instruments and were not clearly and closely related to the host preferred contract in terms of economic risks and characteristics. These terms and features consist of the embedded conversion option and the related down-round anti-dilution protection provision, the Company s redemption privilege and the holder s redemption privilege. Each of the redemption features also embodies the redemption premium payments. Warrants issued with this transaction and the subsequent Settlement Transaction embodied down-round anti-dilution protection and, accordingly, were not afforded equity classification.

As more fully discussed in NOTE I, we entered into the Senior Convertible Note and Warrant Financing Transactions on November 8, 2011 and May 10, 2012. The Senior Convertible Notes embodied certain terms and conditions that were not clearly and closely related to the host debt agreement in terms of economic risks and characteristics. These terms and features consist of the embedded conversion options, certain redemption features and a conversion price reset feature. Warrants issued with this transaction embodied reset price protection and, accordingly, were not afforded equity classification.

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

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

	June 30, 2012	December 31, 2011
Quoted market price on valuation date	$3.725	$2.74
Contractual conversion rate	$3.17 - $3.74	$3.74
Range of effective contractual conversion rates	$3.17 - $4.07	$2.74 - $2.89
Contractual term to maturity	1.84 - 1.98 Years	2.33 Years
Implied expected term to maturity	1.47 - 1.49 Years	2.06 Years
Market volatility:		
Range of volatilities	28.8% - 73.7%	55.6% - 101.8%
Range of equivalent volatilities	44.4% - 64.3%	78.9% - 84.3%
Contractual interest rate	8.0% - 9.0%	8.0%
Range of equivalent market risk adjusted interest rates	8.0% - 9.1%	8.0%-8.1%
Range of equivalent credit risk adjusted yields	1.35% - 1.55%	3.1% - 3.5%
Risk-free rates	0.04% - 0.21%	0.01% - 0.25%

The effective contractual conversion rates give effect to the impending conversion price reset related to the Additional Notes, six months from their inception date, and were derived using a Random-Walk Brownian Motion Stochastic Process. In this process, the expected mean selling price of the Company s common stock on the reset date was estimated at a range of $3.54 $3.70 as of June 30, 2012 and $2.49 - $2.63 as of December 31, 2011. The mean prices derived from the stochastic process were multiplied by 110% which is a contractual provision for computing the reset price.

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

	June 30,		December 31,
	2012	2011	2011
Quoted market price on valuation date	$3.725	$3.13	$2.74
Contractual conversion rate	$1.78	$1.78	$1.78
Implied expected term	0.33 Years	0.74 Years	0.46 Years
Market volatility:			
Range of volatilities	46.5% - 72.9%	61.8%-71.9%	49.5% - 101.8%
Equivalent volatility	51.7%	67.4%	74.1%
Market risk adjusted interest rate:			
Range of rates (including premiums)	18.0% - 35.0%	8.0%-32.0%	13.0% - 32.0%
Equivalent market risk adjusted interest rate	20.3%	12.4%	15.3%
Credit risk adjusted yield rate:			
Range of rates	1.4% - 3.3%	2.2%-3.3%	3.1% - 3.7%
Equivalent credit-risk adjusted yield rate	1.4%	2.3%	3.1%
Risk free rates using zero coupon US Treasury			
Security rates:			
Range of rates	0.04% - 0.10%	0.19%-0.81%	0.12% - 0.25%

The following table reflects the issuances of compound embedded derivatives, redemptions and changes in fair value inputs and assumptions related to the compound embedded derivatives during the periods ended June 30, 2012 and 2011.

	Six Months ended June 30,	
	2012	2011
Balances at January 1	$ 2,680,133	$ 4,075,344
Issuances:	1,291,298	
Expirations from redemptions of host contracts reflected in income		(676,718)
Changes in fair value inputs and assumptions reflected	1,227,451	1,122,065

in income		
Balances at June 30	$ 5,198,882	$ 4,520,691

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

On October 11, 2010, we also issued warrants to acquire 1,800,000 of our common shares in connection with the Series G Convertible Preferred Stock Financing. During April 4-8, 2011, we issued warrants to acquire 525,000 of our common shares in connection the Series G Convertible Preferred Stock and Warrant Settlement Transaction. Finally, on November 8, 2011, we issued warrants to acquire 1,302,083 of our common shares in connection with the Senior Convertible Note Financing Transaction. These warrants required liability classification as derivative financial instruments because certain down-round anti-dilution protection or price protection features included in the warrant agreements are not consistent with the concept of equity. We applied the Binomial Lattice valuation technique in estimating the fair value of the warrants because we believe that this technique is most appropriate and reflects all of the assumptions that market participants would likely consider in transactions involving the warrants, including the potential incremental value associated with the down-round anti-dilution protections.

The Binomial Lattice technique is a level three valuation technique because it requires the development of significant internal assumptions in addition to observable market indicators. Significant assumptions and utilized in the Binomial Lattice process are as follows for both the issuance dates of the warrants and June 30, 2012, June 30, 2011 and December 31, 2011:

	June 30,		December 31,
	2012	2011	2011
Linked common shares	1,800,000	1,800,000	1,800,000
Quoted market price on valuation date	$3.725	$3.13	$2.74
Contractual exercise rate	$2.50	$2.50	$2.50
Term (years)	1.28	2.28	1.78
Range of market volatilities	48.7% - 73.1%	61.0% - 72.8%	56.8% - 101.6%
Risk free rates using zero coupon US Treasury Security rates	0.04% - 0.27%	0.03% - 0.81%	0.02% - 0.25%

	June 30,		December 31,
	2012	2011	2011
Linked common shares	525,000	525,000	525,000
Quoted market price on valuation date	$3.725	$3.13	$2.74
Contractual exercise rate	$2.75	$2.50	$2.75
Term (years)	1.79	2.28	2.28
Range of market volatilities	48.9% - 72.2%	61.0% - 72.8%	56.9% - 94.0%
Risk free rates using zero coupon US Treasury Security rates	0.04% - 0.27%	0.03% - 0.81%	0.02% - 0.25%

	June 30,	December 31,
	2012	2011
Linked common shares	1,562,500	1,302,083
Quoted market price on valuation date	$3.725	$2.74
Contractual exercise rate	$3.60	$4.32
Term (years)	4.86	5.35
Range of volatilities	48.8% - 72.5%	67.2%-87.5%
Risk free rates using zero coupon US Treasury Security rates	0.09% - 0.72%	0.02% - 0.83%
Custom lattice variable: Probability of exercisability (434,027 linked common shares)		60.0%

Of the 1,302,083 common shares accessible from the warrant issued on November 8, 2011, 434,027 of those common shares were accessible only based upon the Company s election to require the lender to provide the additional financing. The lattice custom variable is the probability that management will elect to receive this funding. Based upon all current facts and circumstances, that probability was 60% as of December 31, 2011. When the lender provided additional financing of $8,000,000 on May 10, 2012, the additional 434,027 of common shares became accessible. Warrants indexed to an additional 260,417 were issued in conjunction with the additional financing.

The following table reflects the issuances of derivative warrants and changes in fair value inputs and assumptions related to the derivative warrants during the six months ended June 30, 2012 and 2011.

	Six months ended June 30,	
	2012	2011
Balances at January 1	$ 4,653,160	$ 2,287,800
Issuances	363,542	906,150
Changes in fair value inputs and assumptions reflected in income	1,862,380	139,275
Balances at June 30	$ 6,879,082	$ 3,333,225

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

NOTE N REVENUE PARTICIPATION RIGHTS

The Company s participating revenue rights consisted of the following at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Cambridge project	$ 825,000	$ 825,000
Republic (now *Seattle*) project	62,500	62,500
Galt Resources, LLC	7,512,500	7,512,500
Total participating revenue rights	$ 8,400,000	$ 8,400,000

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

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

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

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

In February 2011, we entered into a project syndication deal with Galt Resources LLC (Galt) for which they invested $7,512,500 representing rights to future revenues of any project Galt selects prior to December 31, 2011. If the project is successful, Galt will recoup their investment plus three times the investment. These amounts will be paid out of proceeds of the project. Galt will receive 50% of the proceeds until this amount is recouped. Thereafter, they will share in additional net proceeds of the project at the rate of 1% for every million invested. The agreement originally allowed Galt to select only one project but an agreement was subsequently reached permitting Galt to bifurcate their selection between two projects, the SS *Gairsoppa* and HMS *Victory*. Galt will receive 50% of our net proceeds, if any, on the SS *Gairsoppa* project until they receive two times its initial investment of $7,512,500. Galt will also receive 50% of our net proceeds, if any, on the HMS *Victory* project until they receive two times its initial investment and thereafter will receive 7.5125% of our net proceeds from the HMS *Victory* project. The Galt invested balance will be amortized to revenue over the expected revenue stream of the selected project.

NOTE O REDEEMABLE SERIES G PREFERRED STOCK

During October 2010, we designated and issued 24 shares of our authorized preferred stock as Series G 8% Convertible Preferred Stock, par value $0.0001 per share (the Series G Preferred) as further discussed below. In April 2011 and October 2011, we redeemed 3 and 20 shares, respectively, from certain holders of the Series G Preferred for cash of $757,500 and $5,065,556, respectively, under the terms and conditions of the Series G Preferred Certificate of Designation. At the time of redemption, the carrying value of these shares of Series G Preferred amounted to $558,926 and $5,000,000, respectively. We have recorded the difference between the redemption values paid and the carrying values amounting to $198,574 and $65,556, respectively, as a deemed dividend in paid-in capital. See NOTE K for our accounting for the associated compound embedded derivative that had been bifurcated and classified in liabilities. As of June 30, 2012 and December 31, 2011, 1 share of Series G Convertible Preferred Stock remains outstanding.

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

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

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

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

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

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

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

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

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

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

	Financing	Exchange	Total

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

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

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

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

Series G Preferred:

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

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

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

Redeemable preferred stock represents preferred stock that is either redeemable for cash on a specific date or contingently redeemable for cash for events that are not within the control of management. Redeemable preferred stock is required to be classified outside of stockholders equity (in the mezzanine section). Because the Series G Preferred is redeemable at the holder s option, we are required to record the residual from our allocation to the mezzanine section. This amount is further subject to accretion to the redemption value over the term to the earliest redemption date using the effective method. Accretion during the year ended December 31, 2011 amounted to $1,789,403 and there has been no further accretion during the six months ended June 30, 2012

Dividends on the Series G Preferred are recorded when they are declared. Cumulative dividends from the inception date of the transactions to June 30, 2012 amounted to $530,556 of which none are arrears on June 30, 2012.

Warrants:

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

NOTE P SUBSEQUENT EVENTS

On July 9, 2012, we entered into a project term loan agreement with Fifth Third Bank that provides a credit facility of up to $10.0 million. The facility will mature on January 31, 2013. The term loan bears interest at a floating rate equal to the one month LIBOR rate plus 500 basis points. We may make prepayments in whole or in part without premium or penalty. An origination fee of $50,000 was paid at closing. A restricted cash deposit of $500,000 would be required to cover any potential interest payments if the full amount of the term loan is advanced.

The term loan is secured by approximately $15.0 million worth of silver recovered from either the SS *Gairsoppa* or the SS *Mantola* shipwreck projects. The Company is required to comply with a number of customary covenants. Advances against the term loan of $5 million can be requested when at least $10.0 million worth of silver has been recovered, and a second advance of $5.0 million can be requested when at least $15.0 million worth of silver in total is delivered to the port of entry. The proceeds of the credit facility will be used to fund the project recovery costs. The company took a $10.0 million draw against the facility on July 17, 2012.

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

The following discussion will assist in the understanding of our financial position and results of operations. The information below should be read in conjunction with the financial statements, the related notes to the financial statements and our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Operational Update

Additional information regarding our announced projects may be found in our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Report for the period ended March 31, 2012. Only projects with material status updates since those report were filed are discussed below. We may have other projects in various stages of planning or execution that may not be disclosed for security or legal reasons until considered appropriate by management.

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

HMS *Victory* Project

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

Pursuant to an agreement with the Foundation, Odyssey has produced an extensive project design for the archaeological excavation of the site, including a complete plan for recording, documentation, conservation, publication and public education. The agreement calls for Odyssey s project costs to be reimbursed and for Odyssey to be paid a percentage of the recovered artifacts fair value. The preferred option is for Odyssey to be compensated in cash. However, if the Foundation determines, based on the principles adopted for their collection management and curation policy, that it is in its best interest to de-accession certain artifacts, the Foundation may choose to compensate Odyssey with artifacts in lieu of cash.

A report was provided to the Foundation and the UK MOD that details monitoring of the site conducted by Odyssey and Wreck Watch International between 2008 and early 2012. The report includes evidence, including photographs, of additional damage to the site since 2008. This report was published in June 2012 and is available here http://shipwreck.net/victorypapers.php

Reports detailing the phased archaeological operations at the shipwreck site will be provided to the Maritime Heritage Foundation after the completion of each phase.

***Gairsoppa* Project**

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

The SS *Gairsoppa* was a 412-foot steel-hulled British cargo ship that was torpedoed by a German U-boat in February 1941 while enlisted in the service of the UKG Ministry of War Transport. Contemporary research and official documents indicate that the ship was carrying £600,000 (1941 value) or up to 7 million total ounces of silver, including over 3 million ounces of private silver bullion insured by the UKG. The British Ministry of War Transport paid a War Risk Insurance Claim for £325,514 (in 1941 value) for 2,817 bars of silver that was reported to be on board the *Gairsoppa* when she sank. The UKG only paid this insurance on privately owned cargo. Any cargo belonging to the UKG owned cargo would not have been insured through the War Risk Insurance Office.

Under the recovery contract, Odyssey assumes the risk, expense, and responsibility for the search, cargo recovery, documentation, and marketing of the cargo. Any monetary proceeds from the salvage will first be applied to reimbursement of Odyssey s recovery and processing expenses. Any remaining monetary proceeds will next be divided with Odyssey retaining 80% of the net salved value, and 20% retained by the UK.

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

In March and April, 2012 we conducted extensive reconnaissance dives to the site of the *Gairsopp*a shipwreck utilizing the RV *Odyssey Explorer* and an inspection-class ROV capable of diving to 6000 meters. The goal for this expedition was to prepare the recovery team with data to plan efficient and effective recovery operations. Hundreds of hours of high-definition dive video and thousands of still photographs were acquired during these dives and a photomosaic was produced. In addition to information about the cargo composition, location and accessibility, extensive information about the shipwreck s condition and structure was acquired which allows us to more efficiently plan for a successful recovery of the target cargo.

The MV Seabed Worker, which serves as our platform for salvage recovery operations, left port in Norway May 31, 2012 to begin recovery operations.

On July 18, 2012, we announced that recovery of silver cargo from the Gairsoppa was underway and that the first 1.4 million troy ounces of silver had been delivered to a secure location in the UK. Recovery operations are continuing.

***Mantola* Project**

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

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

We are planning continue conducting our silver recovery operations in conjunction with the SS *Gairsoppa* recovery aboard the *Seabed Worker*.

Subsea Mineral Mining Exploration Projects

At June 30, 2012, we owned 6.2 million shares (approximately 33%) of Neptune Minerals, a company focused on discovering and commercializing high-value mineral deposits. To-date Neptune has been successful in attracting the investment capital required to fund mineral exploration expeditions and to facilitate its path to commercially viable ore extraction. Neptune s most recent capital raise, completed in December 2011, was for $12 per share of Class B common stock.

In May 2012 we received our final cash payment of $1 million for recent charter services. We also received 9.3 million shares of Chatham Rock Phosphate Ltd. common stock for charter services valued at $1.7 million (12.2 % of Chatham shares outstanding). Chatham Rock Phosphate Ltd currently holds a license covering over 4,000 square kilometers off the coast of New Zealand believed to have significant seabed deposits of rock phosphate and other potentially valuable minerals.

It is anticipated that The Dorado Discovery will be undergoing routine annual inspection and maintenance work in the near future and when that is completed, will plan to be working on contracted projects in the Pacific.

Admiralty Legal Proceedings

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

Black Swan **Arrest**

On September 21, 2011, a panel of the Eleventh Circuit Court of Appeals upheld the dismissal of the case by the United States Federal District Court for the Middle District of Florida finding no subject matter jurisdiction under the Foreign Sovereign Immunities Act. Without concluding that the coins and artifacts recovered were owned by the Kingdom of Spain, the Court upheld the order to transfer all property to Spain based upon a finding that it was once carried aboard the *Nuestra Senora de Las Mercedes*, a Spanish naval vessel. The appeal had been argued before a panel of three judges. Odyssey and other claimants including the country of Peru filed Petitions for Rehearing *En Banc*, requesting that the entire Court hear the case. Those Petitions were denied.

In an order issued January 31, 2012, the Eleventh Circuit Court of Appeals denied the company s motion for a stay of mandate, which would have delayed execution of the order for release of the property to Spain. Odyssey then filed an Emergency Motion for Stay with the U.S. Supreme Court to stay the release until the high Court could consider the Company s Petition for Writ of Certiorari in the case. Justice Clarence Thomas denied our request to stay the mandate, and subsequently, the Eleventh Circuit issued a mandate to the district court. On February 17, 2012 the district court held a hearing and entered its order to Odyssey to provide an inventory of artifacts and to release to Spain the artifacts within its jurisdiction to Spain by February 24, 2012. Odyssey complied with the Court order and the coins were taken by Spain to a local U.S. Air Force base for transport to Spain on February 23, 2012. Odyssey has also released the Black Swan property in Gibraltar to Spain pursuant to the district court s order. On April 16, 2012 Spain filed a motion with the district court for an award of unspecified fees and costs (footnoted roughly $4 million). We prepared our response indicating there is no legal basis for such an award in this case, and filed it on May 15, 2012. We await a ruling on the motion.

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

Unidentified Shipwreck (Bray Case)

On March 31, 2011, the Eleventh Circuit Court of Appeals reversed the dismissal of the case ruling that an alleged oral agreement for purchase of research materials was a maritime contract. Upon remand to the district court, Plaintiff Bray filed an Amended Complaint seeking to rescind the written and fully performed contract, and adding yet more terms allegedly agreed upon over ten years ago prior to the written contract. Odyssey filed a Motion to Dismiss the Amended Complaint. On February 3, 2012, the district court entered an Order to Show Cause requesting Bray to explain why with no case or controversy, the Motion to Dismiss should not be granted. Bray s response was filed on March 20, 2012. We await a ruling from the district court. We will continue to vigorously defend against what we consider to be a frivolous claim.

Critical Accounting Policies and Changes to Accounting Policies

There have been no material changes in our critical accounting estimates since December 31, 2011, nor have we adopted any accounting policy that has or will have a material impact on our consolidated financial statements.

Results of Operations

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

Three-months ended June 30, 2012, compared to three-months ended June 30, 2011

Increase/(Decrease)			**2012 vs. 2011**	
(Dollars in millions)	**2012**	**2011**	**$**	**%**
Artifact sales and other	$ .1	$ .1	$	27%
Exhibit	.1			164

Expedition charter	1.2	6.6	(5.4)	(82)
Total revenue	$ 1.4	$ 6.7	$ (5.3)	(79)%
Cost of sales	$ .1	$ .1	$	71%
Marketing, general and administrative	2.5	2.4	.	2
Operations and research	9.6	5.2	4.4	84
Total operating expenses	$ 12.1	$ 7.7	$ 4.5	58%
Other income (expense)	$ (4.9)	$ (1.0)	$ (3.9)	(388)%

The explanations that follow are for the three-months ended June 30, 2012, compared to the three-months ended June 30, 2011.

Revenue

The decrease in total revenue of $5.3 million was primarily related to a decrease in expedition charter revenue. The decrease in expedition charter revenue was associated with our subsea mineral mining charters ($3.0 million) and a reduction of Robert Fraser shipwreck projects ($2.4 million). The expedition charter revenue of $1.2 million in 2012 was primarily associated with a subsea mineral mining charter with Chatham Rock Phosphates off the coast of New Zealand. The expedition charter revenue in 2011 of $4.2 million related to a subsea mineral mining charter with Neptune Minerals. Also, our operational efforts in 2012 were focused on our shipwreck recovery projects (i.e., *Gairsoppa*, *Mantola* and HMS *Victory*).

Operating Expenses

Operations and research expenses were $9.6 million in 2012 as compared to $5.2 million in 2011. Marine operations and vessel expenses were unfavorable by $4.3 million between the two periods. The increase was primarily related to our charter operations for the recovery of the *Gairsoppa* and *Mantola* projects ($4.1 million) and $.2 million of other miscellaneous ship operating expenses.

Other Income (Expense)

Other income and expense generally consists of interest income on investments offset by interest expense on our bank term and other mortgage loans and convertible notes. Beginning in the fourth quarter 2009, it also included the income or loss from our equity investment in subsea mineral mining which has since been written down to zero. It also includes the change in fair value of the derivatives related to our issuance of Series G convertible preferred stock and senior convertible notes. The unfavorable other expense variance of $3.9 million in the second quarter of 2012 was primarily related to an unfavorable impact on the fair value of the derivative financial instruments ($3.9 million, see Note M). Also included in other expense was a favorable impact of $1.6 million on the loss on equity investment since the investment had been written down to zero in 2011. This favorable impact was offset by unfavorable interest expense variance of $1.6 million which primarily related to the interest accretion on the convertible note payable and other interest.

<u>Six-months ended June 30, 2012, compared to six-months ended June 30, 2011</u>

Increase/(Decrease)			**2012 vs. 2011**	
(Dollars in millions)	**2012**	**2011**	**$**	**%**
Artifact sales and other	$ .2	$ .5	$ (.3)	(59)%
Exhibit	.1	.1		40
Expedition charter	4.0	8.3	(4.3)	(51)
Total revenue	$ 4.3	$ 8.8	$ (4.5)	(51)%
Cost of sales	$ .1	$ .2	$ (.1)	(45)%
Marketing, general and administrative	4.8	4.6	.2	5
Operations and research	14.7	8.7	6.0	69
Total operating expenses	$ 19.7	$ 13.6	$ 6.1	45%
Other income (expense)	$ (5.7)	$ (2.4)	$ (3.3)	(139)%

The explanations that follow are for the six-months ended June 30, 2012, compared to the six-months ended June 30, 2011.

Revenue

The decrease in total revenue of $4.5 million was primarily related to a decrease in expedition charter revenue of $4.3 million and a decrease in artifact sales and of $.3 million. The decrease in expedition charter revenue was associated with our subsea mineral mining charters ($1.4 million), a reduction of Robert Fraser shipwreck projects ($2.4 million) and a $.5 million miscellaneous charter in 2011 for the Odyssey Explorer. The expedition charter revenue of $4.0 million in 2012 was primarily associated with a subsea mineral mining charter with Chatham Rock Phosphates off the coast of New Zealand. The expedition charter revenue in 2011 of $5.4 million related to a subsea mineral mining charter with Neptune Minerals. Also, our operational efforts in 2012 were focused on our shipwreck recovery projects (i.e., *Gairsoppa*, *Mantola* and HMS *Victory*).

The decrease in artifact and other sales of $.3 million was due to over 500 fewer coins sold in the 2012 versus 2011.

Operating Expenses

Cost of sales decreased by $.1 million in 2012 versus 2011 due approximately 500 fewer silver coins sold in the first quarter 2012 versus 2011.

Marketing, general and administrative expenses were $4.8 million in 2012 as compared to $2.6 million in 2011. The increase of $.2 million primarily represented an increase in our professional fees and services.

Operations and research expenses were $14.7 million in 2012 as compared to $8.7 million in 2011. Marine operations and vessel expenses were unfavorable by $5.9 million between the two periods. The *Dorado Discovery* was unfavorable $1.8 million in 2012 versus 2011 primarily related to operating day utilization and off hire periods in 2011 due to vessel maintenance issues. The *Odyssey Explorer* was unfavorable $.9 million in 2012 versus 2011 primarily related to the additional rental costs for equipment for the *Gairsoppa* survey project which was offset by favorable *Ocean Alert* expenses of $.8 million due to the sale in 2011. The remaining unfavorable expenses of $4.1 million in 2012 related to our charter operations for the recovery of the *Gairsoppa* and *Mantola* projects.

Other Income (Expense)

Other income and expense generally consists of interest income on investments offset by interest expense on our bank term and other mortgage loans and convertible notes. Beginning in the fourth quarter 2009, it also included the income or loss from our equity investment in subsea mineral mining which has since been written down to zero. It also includes the change in fair value of the derivatives related to our issuance of Series G convertible preferred stock and senior convertible notes. The unfavorable other expense variance of $3.3 million in 2012 was primarily related to an unfavorable impact on the fair value of the derivative financial instruments ($2.5 million, see Note M). Also included in other expense was a favorable impact of $1.6 million on the loss on equity investment since the investment had been written down to zero in 2011. This favorable impact was offset by unfavorable interest expense variance of $2.5 million which primarily related to the interest accretion on the convertible note payable and other interest.

Liquidity and Capital Resources

	Six-Months Ended	
(Dollars in thousands)	**June 2012**	**June 2011**
Summary of Cash Flows:		
Net cash used by operating activities	$ (13,127)	$ (4,201)
Net cash used by investing activities	(597)	(401)
Net cash provided by financing activities	9,288	21,896
Net increase (decrease) in cash and cash equivalents	$ (4,436)	$ 17,293
Beginning cash and cash equivalents	7,972	236
Ending cash and cash equivalents	$ 3,536	$ 17,529

Discussion of Cash Flows

Net cash used by operating activities for the first six months of 2012 was $13.1 million. This amount primarily reflected an operating loss of $21.1 million offset in part by non-cash items of $6.8 million including depreciation and amortization ($.8 million), share-based compensation ($.9 million), notes payable interest accretion and loan fee amortization ($2.0 million), unfavorable change in the fair value of derivative liabilities ($3.1 million increase to Net Loss, see NOTE M). Other working capital changes (including non-current assets) also provided an increase in cash of $1.2 million. These changes primarily included a net increase of other assets and accounts receivable of $3.0 million (primarily relating to the $3.0 million charter deposit for our *Gairsoppa* and *Mantola* recovery projects) offset by a net increase in accounts payable and accrued expenses of $4.0 million (primarily relating to our ship charter operations). Net cash used by operating activities for the first six months of 2011 was $4.2 million. This amount primarily reflected an operating loss of $7.1 million offset in part by non-cash items including change in the fair value of derivative liabilities ($.6 million, see Note M), depreciation and amortization ($1.1million), and share-based compensation ($.9 million). Other non-cash working capital changes also provided an increase in cash of $.4 million.

Cash flows used in investing activities for the first six months of 2012 and 2011 was $.6 million and $.4 million, respectively, which represented the purchase of marine property and equipment in both periods.

Cash flows provided by financing activities for the first six months of 2012 was $9.3 million which primarily represented $2.0 million proceeds from the additional term loan from Fifth Third Bank in March 2012 offset by repayment of mortgage and loans payable and the $8.0 million additional proceeds from the second tranche of the Senior Convertible Note (Additional Note). Cash flows provided by financing activities for the first six months of 2011 were $21.9 million which primarily represented proceeds from the issuance of common stock ($15.7 million) and an increase in deferred income from revenue participation rights on the Galt project ($7.3 million, see Note N). The deferred income increase represented the proceeds from the Galt project which will be amortized into revenue if, or when, the designated project is recovered and monetized. Other uses which offset the aforementioned proceeds included redemption of a portion of the outstanding Series G convertible preferred stock ($.8 million), preferred dividends ($.2 million), and repayment of mortgage and loans payable ($.1 million).

Other Cash Flow and Equity Areas

General Discussion

At June 30, 2012, we had cash and cash equivalents of $3.5 million, a decrease of $4.4 million from the December 31, 2011 balance of $8.0 million.

On November 8, 2011, we entered into a securities purchase agreement with one institutional investor pursuant to which Odyssey issued and sold a senior convertible note in the original principal amount of $10.0 million and a warrant to purchase up to 1,302,083 shares of Odyssey s common stock for an aggregate purchase price of $10.0 million. Subject to the satisfaction of conditions set forth in the securities purchase agreement, Odyssey had the right to require the investor to purchase an additional senior convertible note in the original principal amount of up to $5.0 million on the six-month anniversary of the initial closing date. The indebtedness evidenced by the Notes bears interest at 8.0% percent per year, payable quarterly, and matures on the 30-month anniversary of the initial closing date. (See Note L to the Consolidated Financial Statements).

In April 2012, we delivered an additional closing notice under the securities purchase agreement that was executed in November 2011 when we issued and sold the investor a senior convertible note in the original principal amount of $10.0 million and warrants in amounts as stated above. In connection with the delivery of the additional closing notice, the original agreement was amended to increase the additional second tranche of the note to $8 million. The additional note bears interest at 9.0% per year and will mature on the 30-month anniversary of the initial closing date. The additional note will be amortized in equal monthly installments commencing on the eighth-month anniversary of the initial note and may be paid in cash or Odyssey common stock. The additional note may be converted into Odyssey s common stock, at the option of the holder, at any time following six months after the date of issuance. Odyssey has a right to redeem the additional note. The initial conversion price of the additional note is $3.74 subject to adjustment as provided in the terms of the initial note. The number of shares of Odyssey s common stock issuable upon exercise of the warrant increased to 1,562,500.

During December 2011, we chartered the *Dorado Discovery* vessel to Chatham Rock Phosphate, Ltd. for $1.2 million in relation to deep-ocean surveying. The charter permitted Chatham to pay for services in either cash or common shares of their company. At December 31, 2011, Chatham was planning on a financing to pay for the charter. We did not record the revenue from this charter because of their liquidity and capital positions at that time. Chatham completed a portion of their financing in the first quarter of 2012 and remitted the $1.2 million payment. In addition Chatham remitted $1.8 million for charter services in the first quarter 2012 for charter services in March 2012. An amount due of an additional $1 million was paid in May for services rendered in January 2012. In June, Chatham executed the option to pay the remaining charter balance of $1.7 million in stock and Odyssey received 9.3 million shares, or 12.2% of the company.

Bank Term Loan

On March 30, 2012, we amended our $3 million term loan maturing on April 23, 2012. The term loan was increased to $5 million with an expiration date of July 11, 2013. The facility bears floating interest at the one month LIBOR rate according to the Wall Street Journal plus 500 basis points. Any prepayments made in full or in part are without premium or penalty. A commitment renewal fee of $25,000 was payable at closing. No restricted cash payments will need to be kept on deposit. The term loan is still secured by approximately 27,000 numismatic coins recovered by the Company from the SS *Republic* shipwreck, which amount will be reduced over the term by the amount of coins sold by the Company. The coins used as collateral will be held by a custodian for the security of the Bank. The borrowing base will be equal to forty percent (40%) of the eligible coin inventory valued on a rolling twelve month wholesale average value. The Company is required to comply with a number of customary covenants.

On July 9, 2012, Odyssey Marine Exploration, Inc. entered into a project term loan agreement with Fifth Third Bank that provides a credit facility of up to $10.0 million. The facility will mature on January 31, 2013. The term loan bears interest at a floating rate equal to the one month LIBOR rate plus 500 basis points. Odyssey may make prepayments in whole or in part without premium or penalty. An origination fee of $50,000 was payable at closing. A restricted cash deposit of $500,000 would be required to cover any potential interest payments if the full amount of the term loan is advanced. The term loan will be secured by approximately $15.0 million worth of silver recovered from either the SS *Gairsoppa* or the SS *Mantola* shipwreck projects. The Company is required to comply with a number of customary covenants. The proceeds of the credit facility will be used to fund the project recovery costs. The company took a $10 million draw against the facility on July 17, 2012.

Trends and Uncertainties

Our 2012 business plan contains assumptions which include that several of our planned projects are funded through project debt-type financings, syndications or other partnership opportunities. The business plan expenses include a 90-day charter agreement which we executed with a company to provide a ship and equipment to conduct recovery operations on the *Gairsoppa* and *Mantola* projects. We have recently renewed our term loan with Fifth Third Bank which increased our existing term loan from $3 million to $5 million through July 2013. We amended our senior convertible note and received an additional $8 million in May 2012. We are also permitted under the terms of our senior convertible note agreement to raise additional project indebtedness up to $15 million. In July we executed an agreement with Fifth Third Bank which provided $10 million of project financing collateralized with a portion of the silver from the project. We will also be reimbursed from silver sale proceeds for the costs of the project to-date which are now estimated to be approximately $13 million. We also intend to discuss additional finance opportunities with Fifth Third Bank. We expect to receive cash from silver proceeds beginning in the third and fourth quarter 2012. Based upon our current expectations, we believe our cash position will be sufficient to fund operating cash flows throughout the rest of 2012 taking into account our beginning cash balance, current cash flow expectations and revenues from multiple sources, including projected sales, syndicated projects and other potential financing arrangements. We have experienced several years of net losses resulting in a stockholders deficit. Our capacity to generate net income in future periods is dependent upon our success in recovering and monetizing high-value shipwrecks, realizing capital gains from our investments in other business opportunities or to generate income from mineral exploration activities, charters or other projects. However, it is likely that we could monetize a significant amount of cash from our existing shipwreck projects in 2012 which could fund our operations for future periods. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to raise additional capital or curtail expenses. While we have been successful in raising the necessary funds in the past, there can be no assurance that we can continue to do so in the future.

New Accounting Pronouncements

As of June 30, 2012, the impact of recent accounting pronouncements on our business is not considered to be material.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. Our term loan and primary mortgage bear interest at variable rates and expose us to interest rate risk. Our term loan bears a variable interest rate based on LIBOR and our primary mortgage bears an interest at a variable rate based on the prime rate. See NOTE I for further detail on these instruments. Both of these instruments expose us to interest rate risk. On our primary mortgage, for an increase of every 100 basis points, our interest obligation increases, at most, by approximately $1,100 per month until maturity in July 2013. On our term loan, an increase of every 100 basis points to the interest rate increases our interest obligation, at most, by approximately $4,100 per month until maturity in July 2013. If an increase to the rates on these instruments occurs, it will have an adverse effect on our operating cash flows and financial condition but we believe it would not be material. We do not believe we have other material market risk exposure and have not entered into any market risk sensitive instruments to mitigate these risks or for trading or speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

Odyssey maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this report, based on an evaluation carried out under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures, the CEO and CFO have concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls over financial reporting during the second quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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

ITEM 1A. Risk Factors

For information regarding risk factors, please refer to Item 1A in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. Investors should consider such risk factors, as well as the risk factor set forth below, prior to making an investment decision with respect to the Company s securities.

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

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

Odyssey s shares of common stock for a ten-day period immediately prior to the applicable amortization date. Conversion of the notes at conversion prices that are lower than the market price at the time of conversion and the sale of the shares issued upon conversion could have an adverse effect upon the market price of our common stock.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. [Removed and Reserved]

ITEM 5. Other Information

None.

ITEM 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith electronically)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith electronically)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Filed herewith electronically)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Filed herewith electronically)
10.1	Loan Agreement dated July 9, 2012 with Fifth Third Bank
10.2	Non-Revolving Line of Credit Promissory Note dated July 9, 2012 with Fifth Third Bank
101.1	Interactive Data File

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ODYSSEY MARINE EXPLORATION, INC.

Date: August 1, 2012

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