ODYSSEY MARINE EXPLORATION INC
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2011

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 ¨

The number of outstanding shares of the registrant s Common Stock, $.0001 par value, as of October 28, 2011 was 72,793,773.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,046,381	$ 235,762
Restricted cash	213,109	563,710
Accounts receivable, net	697,949	2,095,571
Inventory	408,074	409,613
Other current assets	677,408	467,180
Total current assets	12,042,921	3,771,836
PROPERTY AND EQUIPMENT		
Equipment and office fixtures	17,259,122	16,637,638
Building and land	4,683,942	4,671,231
Accumulated depreciation	(15,007,177)	(12,979,576)
Total property and equipment, net	6,935,887	8,329,293
NON-CURRENT ASSETS		
Restricted cash	31,130	183,498
Inventory	5,723,385	6,020,699
Other non-current assets	1,106,939	1,101,367
Total other assets	6,861,454	7,305,564
Total assets	$ 25,840,262	$ 19,406,693
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 1,258,982	$ 2,238,356
Accrued expenses and other	1,843,226	2,766,672
Deferred revenue	3,500,773	730,098
Subscription payable		1,998,800
Derivative liabilities	6,103,907	6,363,144
Mortgage and loans payable	3,419,511	5,174,537
Total current liabilities	16,126,399	19,271,607
NON-CURRENT LIABILITIES		
Mortgage and loans payable	1,994,664	2,776,383
Deferred income from revenue participation rights	8,400,000	887,500
Total long-term liabilities	10,394,664	3,663,883

Total liabilities	26,521,063	22,935,490
Commitments and contingencies (NOTE H)		
Redeemable Series G Convertible Preferred Stock	5,250,000	4,019,523
STOCKHOLDERS DEFICIT		
Preferred stock - $.0001 par value; 9,361,176 shares authorized; none outstanding		
Preferred stock series D convertible - $.0001 par value; 448,800 shares authorized at September 30, 2011 and December 31, 2010, respectively; 206,400 shares issued and outstanding, respectively	21	21
Common stock - $.0001 par value; 150,000,000 shares authorized; 72,793,773 and 67,082,835 issued and outstanding at September 30, 2011 and December 31, 2010, respectively	7,279	6,708
Additional paid-in capital	137,032,373	122,722,840
Accumulated deficit	(142,970,474)	(130,277,889)
Total stockholders deficit	(5,930,801)	(7,548,320)
Total liabilities and stockholders deficit	$ 25,840,262	$ 19,406,693

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
REVENUE				
Artifact sales and other	$ 226,216	$ 41,444	$ 680,130	$ 338,693
Exhibit	28,124		99,527	65,000
Expedition	5,685,533	9,788,324	13,998,888	16,689,208
Total revenue	5,939,873	9,829,768	14,778,545	17,092,901
OPERATING EXPENSES				
Cost of sales artifacts and other	97,118	30,981	323,255	170,364
Marketing, general and administrative	2,293,687	2,171,790	6,897,857	6,742,075
Operations and research	7,521,962	6,607,436	16,241,556	15,272,354
Total operating expenses	9,912,767	8,810,207	23,462,668	22,184,793
INCOME (LOSS) FROM OPERATIONS	(3,972,894)	1,019,561	(8,684,123)	(5,091,892)
OTHER INCOME (EXPENSE)				
Interest income	1,683	698	2,218	3,371
Interest expense	(82,313)	(220,035)	(285,924)	(394,030)
Change in derivative liabilities fair value	1,750,009		1,165,387	
(Loss) from unconsolidated entity	(2,893,100)	(2,112,011)	(4,488,100)	(2,447,471)
Other	58,618	4,474	47,957	12,712
Total other income (expense)	(1,165,103)	(2,326,874)	(3,558,462)	(2,825,418)
LOSS BEFORE INCOME TAXES	(5,137,997)	(1,307,313)	(12,242,585)	(7,917,310)
Income tax benefit (provision)				
NET LOSS	$ (5,137,997)	$ (1,307,313)	$ (12,242,585)	$ (7,917,310)
NET LOSS PER SHARE				
Basic and diluted (See NOTE B)	$ (.07)	$ (.02)	$ (.22)	$ (.12)
Weighted average number of common shares outstanding				
Basic and diluted	72,793,773	66,770,926	69,292,452	65,245,071

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited

	Nine Months Ended	
	September 30, 2011	**September 30, 2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (12,242,585)	$ (7,917,310)
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation and amortization	1,476,289	1,622,931
Write down of long-lived asset	593,966	
Loan discount amortization		110,123
Change in derivatives liabilities fair value	(1,165,387)	
Loss from unconsolidated entity	4,488,100	2,447,471
Investment in unconsolidated entity	(4,488,100)	
Share-based compensation	1,347,471	1,406,640
(Increase) decrease in:		
Restricted cash	502,969	(111,748)
Accounts receivable	(601,179)	(8,415,193)
Inventory	298,853	139,742
Other assets	(218,044)	(237,306)
Increase (decrease) in:		
Accounts payable	(979,374)	2,832,835
Accrued expenses and other	(1,019,768)	456,017
Deferred revenue	2,770,675	363,281
Subscription payable		(182,047)
NET CASH (USED) BY OPERATING ACTIVITIES	(9,236,114)	(7,484,564)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(558,719)	(1,547,684)
Investment in unconsolidated entity		(1,200)
NET CASH (USED) BY INVESTING ACTIVITIES	(558,719)	(1,548,884)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	15,627,196	6,243,000
Deferred income from revenue participation rights	7,512,500	
Dividends	(240,000)	
Redemption of Series G Preferred	(757,500)	
Fees on private offering		(186,254)
Proceeds from issuance loan payable		1,872,714
Repayment of mortgage and loans payable	(2,536,744)	(135,795)
NET CASH PROVIDED BY FINANCING ACTIVITIES	19,605,452	7,793,665
NET INCREASE (DECREASE) IN CASH	9,810,619	(1,239,783)
CASH AT BEGINNING OF PERIOD	235,762	2,145,449
CASH AT END OF PERIOD	$ 10,046,381	$ 905,666

SUPPLEMENTARY INFORMATION:				
Interest paid	$	289,406	$	283,932
Income taxes paid	$		$	
NON-CASH TRANSACTIONS:				
Accrued compensation paid by equity instruments	$	229,564	$	496,964
Series G Preferred Stock dividend declaration	$	210,000	$	
Series G Preferred Stock accretion	$	2,217,409	$	
Acquired non-controlling interest of Dorado Resources, Ltd. with the assumption of a subscription payable of an equal amount (See NOTE F)	$		$	1,998,800
Offset account receivable with subscription payable (See NOTE D)	$	1,998,800	$	
Accounts receivable converted to stock in unconsolidated entity (See NOTE D)	$		$	

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

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ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Odyssey Marine Exploration, Inc. and subsidiaries (the Company, Odyssey, us, we or our) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

In the opinion of management, these financial statements reflect all adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position as of September 30, 2011, and the results of operations and cash flows for the interim periods presented. Operating results for the nine-month period ended September 30, 2011, 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.

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

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 mainly of artifacts recovered from the SS *Republic* shipwreck as well as general branded merchandise and related materials. The value of recovered artifacts in inventory is comprised of the costs of recovery and conservation. Costs of recovery include direct operating costs such as vessel and related equipment operations and maintenance, crew and technical labor, fuel, provisions and supplies, port fees and depreciation. The SS *Republic* recovery costs also include the fee paid to an insurer to relinquish the insurer s claim to the artifacts recovered from the shipwreck. Conservation costs include fees paid to conservators for cleaning and preparing the artifacts for sale. We continually monitor the recorded aggregate costs of the artifacts in inventory to ensure these costs do not exceed the net realizable value. Historical sales, publications or available public market data are used to assess market value.

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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. Due to a planned sale of our vessel, the *Ocean Alert*, at salvage value subsequent to September 30, 2011, management decided to charge the difference of $593,965 to Operations and research in the period ended September 30, 2011.

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 September 30, 2011, 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. 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 or other convertible securities. 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 September 30, 2011 and 2010, weighted average common shares outstanding year-to-date were 69,292,452 and 65,245,071, respectively. For the periods ended September 30, 2011 and 2010, 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		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Average market price during the period	$ 2.78	$ 1.47	$ 3.11	$ 1.38
In the money potential common shares from options excluded	73,997	631,261	162,213	568,474
In the money potential common shares from warrants excluded	676,542		1,123,951	

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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		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Out of the money options and warrants excluded:				
Stock options with an exercise price of $1.74 per share		71,500		71,500
Stock options with an exercise price of $3.50 per share	875,000	1,382,916	875,000	1,382,916
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	97,500	52,500	97,500
Stock options with an exercise price of $5.00 per share	650,000	650,000	650,000	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 $2.25 per share		2,670,000		2,670,000
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	2,974,070	6,268,486	2,974,070	6,268,486

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		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Potential common shares from Convertible Preferred Stock excluded from EPS	3,146,400	206,400	3,146,400	206,400

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		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Potential common shares from unvested restricted stock awards excluded from EPS	495,548	631,261	443,385	568,474

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net loss	$ (5,137,997)	$ (1,307,313)	$ (12,242,585)	$ (7,917,310)
Accretion of Series G Preferred Stock			(1,987,977)	

Fair market value of warrants issued to Series G Preferred Stock stockholders			(906,150)	
Cumulative dividends on Series G Preferred Stock	(105,000)		(343,479)	
Numerator, basic and diluted net income (loss) available to stockholders	$ (5,242,997)	$ (1,307,313)	$ (15,480,191)	$ (7,917,310)
Denominator:				
Shares used in computation basic:				
Weighted average common shares outstanding	72,793,773	66,770,926	69,292,452	65,245,071
Shares used in computation diluted:				
Weighted average common shares outstanding	72,793,773	66,770,926	69,292,452	65,245,071
Dilutive effect of potential common shares outstanding				
Shares used in computing diluted net income per share	72,793,773	66,770,926	69,292,452	65,245,071
Net loss per share basic	$ (0.07)	$ (0.02)	$ (0.22)	$ (0.12)
Net loss per share diluted	$ (0.07)	$ (0.02)	$ (0.22)	$ (0.12)

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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 liabilities in instances where redemption is certain to occur pursuant to ASC 480 Distinguishing Liabilities from Equity. Redeemable preferred stock classified as liabilities 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.

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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 were made for the first one-year period. On each anniversary of the mortgage, we deposit or will 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 September 30, 2011, was $244,239.

NOTE D ACCOUNTS RECEIVABLE

The accounts receivable balances at September 30, 2011 and December 31, 2010 were $697,949 and $2,095,571, respectively, which are net of reserves for doubtful accounts of $6,390,593 and $8,494,672, respectively. The December 31, 2010 balance included $2,000,000 related to 2010 charter activity with Dorado Ocean Resources, Ltd. (DOR). During the three-month period ended June 30, 2011, we chose to exercise our contractual right to offset our subscription payable of $1,998,800 owed to DOR against their $2,000,000 account receivable balance. As described in NOTE F, Neptune Minerals, Inc. (NMI) completed a share exchange with DOR shareholders and assumed complete control of DOR. In connection with the share exchange, NMI executed an assignment and assumption agreement, whereby NMI assumed $8,227,675 of the outstanding debt of DOR owed to us. In addition, we executed a debt conversion agreement with NMI, whereby we converted $2,500,000 of the debt for 2,500,000 shares of NMI Class B non-voting common stock. The remaining amount of the DOR receivable is reserved for in its entirety.

NOTE E - INVENTORY

Our inventory consisted of the following:

	September 30, 2011	December 31, 2010
Artifacts	$ 5,940,332	$ 6,203,813
Packaging	176,262	219,101
Merchandise	484,497	486,857
Merchandise reserve	(469,632)	(479,459)
Total inventory	$ 6,131,459	$ 6,430,312

Of these amounts, $5,723,385 and $6,020,699 are classified as non-current as of September 30, 2011 and December 31, 2010, respectively.

If we secure ownership rights to the recovered artifacts from the *Black Swan* project, we will capitalize into inventory all related costs to recover and conserve these artifacts. Recovery costs include operating costs to recover, legal fees to defend and secure ownership rights and other costs associated with bringing the artifacts into an appropriate archaeological state. We have capitalized costs of approximately $2.6 million related to recovery and conservation that have been reserved for at 100%. When and if ownership rights are secured, these deferred costs will be allocated to inventory and the reserve eliminated.

NOTE F INVESTMENTS IN UNCONSOLIDATED ENTITIES

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. See NOTE D for the disposition of this subscription payable. The focus of DOR was on the exploration and monetization of gold- and copper-rich Seafloor Massive Sulfide (SMS) deposits.

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During the nine-month period ended September 30, 2011, we were engaged by Neptune Minerals, Inc. (NMI) and its affiliates to perform marine services relating to deep-sea mining on two separate charter agreements. The agreements provided for payments to us in cash and Class B shares of non-voting common stock of Neptune Minerals, LLC. As of September 30, 2011, we earned 1,996,600 shares of the Class B non-voting common stock. 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. In addition, 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 September 30, 2011, we have a net share position in NMI of 6,146,600 shares, which represents an approximate 33% ownership before any further dilution of the NMI stock.

Based on guidance in ASC 323: Equity Method and Joint Ventures, management has determined we are able to exert significant influence and, therefore, management believes it is appropriate to apply the equity method of accounting to this investment. Additionally, we do not have any requirements to provide any additional financial support to DOR or NMI. The original $2,500,000 accounts receivable related to the 2,500,000 share conversion was fully reserved and maintained a net book value of zero. The 1,650 shares related to the original DOR investment had a net book value of zero because DOR accounting was on the equity method and the entire investment was written down to zero. These stock conversions were viewed as contribution of non-cash assets with a carrying basis of zero. Therefore, we believe the carry-over basis is more appropriate to measure the investment than fair value. Accordingly, no gain or loss was recorded on these transactions.

At June 30, 2011, there was approximately $1,500,000 of outstanding 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 recognized on our balance sheet in NMI. During the three-month period ended September 30, 2011, we earned an additional $2,893,100 worth of the Class B non-voting common stock from our NMI marine services charter. Accordingly, we applied this amount against the unrecognized loss noted above as well as our current allocable losses of approximately $2,600,000 for the three-month period ended September 30, 2011. Since our investment carrying basis is zero at September 30, 2011, the remaining cumulative and outstanding losses of approximately $1,200,000 are not yet recognized in our financial statements.

NOTE G - INCOME TAXES

As of September 30, 2011, the Company had consolidated income tax net operating loss (NOL) carryforwards for federal tax purposes of approximately $114 million. The NOL will expire in various years beginning in 2017 and ending through the year 2031. From 2017 through 2021, approximately $4 million of the NOL will expire, from 2022 through 2026, approximately $42 million of the NOL will expire and from 2027 through 2031, approximately $68 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 capital loss carryforwards	$ 41,218,046
Accrued expenses	62,815
Reserve for accounts receivable	2,310,617
Reserve for inventory	164,803
Start-up costs	107,398
Excess of book over tax depreciation	1,481,861
Stock option and restricted stock award expense	1,676,011
Investment in unconsolidated entity	3,031,274
Less: valuation allowance	(49,894,003)
	$ 158,822
Deferred tax liability:	
Property and equipment basis	$ 69,469
Prepaid expenses	89,353

	$	158,822
Net deferred tax asset	$	

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As reflected above, we have recorded a net deferred tax asset of $0 at September 30, 2011. 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 September 30, 2011. While we have recovered more than 17 tons of silver coins and hundreds of gold coins and other artifacts from the *Black Swan* project, we do not have the ability to monetize the recovered cargo unless and until we are awarded title or a salvage award by the court or otherwise reach a settlement of the matter.

The change in the valuation allowance is as follows:

September 30, 2011	$ 49,894,003
December 31, 2010	45,983,926
Change in valuation allowance	$ 3,910,077

Income taxes for the nine-month periods ended September 30, 2011 and 2010 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:

	September 30, 2011	**September 30, 2010**
Expected (benefit)	$ (4,162,479)	$ (2,691,886)
State income taxes net of federal benefits	(122,296)	(87,926)
Nondeductible expense	12,474	12,327
Stock options and restricted stock awards	729,241	
Derivatives	(396,232)	
Change in valuation allowance	3,910,077	2,931,393
Effects of:		
Change in apportionment estimate		(164,387)
Other, net	29,215	479
	$	$

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 2007.

NOTE H COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Trends and Uncertainties

Our current 2011 business plan estimates that some of our planned projects may be financed through project syndications or other partnership and project financing opportunities. One or more of these projected project financing or partnership opportunities may not be realized, or we may choose not to avail ourselves of these financing opportunities, which may require the need for additional cash. Based upon our current expectations, we believe our cash position will be sufficient to fund operating cash flows through the rest of 2011 taking into account our current

cash position and expected revenues from multiple sources, including projected sales of products and contracted services, project financing and other potential financing opportunities. Our renewed term loan with Fifth Third Bank required a $2.0 million payment which was made in July 2011, and we also redeemed $5.0 million of the remaining of Series G Convertible Preferred Stock in October 2011. However, we will need to obtain additional capital if cash flow from operations or project financing is not sufficient to meet operational requirements. 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, or from generating income from other projects. We have identified one of our potential high value target shipwrecks, HMS *Victory,* and we have presented a proposal for the archaeological excavation, conservation and management of that shipwreck from which we expect to generate revenues. There is evidence suggesting at least one of the Robert Fraser client shipwreck targets has been located, and is the subject of ongoing operational plans. In addition we have located the SS *Gairsoppa* and the SS *Mantola* shipwrecks, which reportedly contained large quantities of silver we believe may be monetized in 2012. We are also engaged in negotiations to undertake a number of deep-ocean mining exploration projects which may produce additional revenue opportunities. It is possible we may not be able to begin recovery operations on projects as planned, monetize any potential cargo in the short term or successfully conclude negotiations for the mining projects. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to raise additional capital or curtail expenses. While we have been successful in raising the necessary funds in the past, there can be no assurance that we can continue to do so.

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NOTE I MORTGAGE AND LOANS PAYABLE

The Company s consolidated debt consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Term loan	$ 3,000,000	$
Revolving credit facility		5,000,000
Mortgage payable	2,414,175	2,950,920
	$ 5,414,175	$ 7,950,920

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 are required to pay additional principal to meet an 80% loan-to-value (LTV) based upon an independent real estate appraisal. The additional principal payments are at $100,000 per month until the loan balance meets the 80% LTV. Based on this condition, we commenced the repayment of $643,750 in July 2011 and have remitted $400,000 as of September 30, 2011.

The amended term loan is secured by approximately 27,300 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.

Revolving Credit Facility

On February 7, 2008, we entered into a $5 million revolving credit facility with the Bank. The credit facility had a floating interest rate equal to the prime rate plus fifty basis points (.50%), required monthly payments of interest only and was originally due in full February 7, 2010, and a 90-day extension was granted until May 7, 2010. On April 23, 2010, the Bank renewed the credit facility which became due in full on April 23, 2011. The facility required us to pay the Bank an unused line fee equal to one-half percent (0.50%) per annum of the unused portion of the credit line. The line of credit was secured by a restricted cash balance as well as available coins recovered from the SS *Republic* shipwreck, which balance was reduced over the term by the amount of coins sold. The modified borrowing base was equal to forty percent (40%) of the eligible coin inventory calculated on a rolling twelve-month wholesale average value. Odyssey was required to comply with a number of customary affirmative and negative 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. On May 4, 2011, we replaced this facility with the Bank with the term loan described in the preceding paragraph.

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 us to make 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. The additional principal payments will be at $100,000 per month until the loan balance meets the 80% LTV. Based on this condition, we commenced the repayment of $643,750 in July 2011 and have remitted $400,000 as of September 30, 2011.

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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 and 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 September 30, 2011, $25,000 is outstanding. The interest is at a variable rate of 1.0% above the prime interest rate stated by BB&T, formerly Colonial Bank of Tampa. This obligation has a maturity date of May 14, 2012, and is also secured by the related mortgaged real property.

Notes Payable

On August 20, 2010, we entered into individual purchase agreements with certain investors pursuant to which we issued and sold promissory notes in the aggregate principal amount of $1,800,000 and warrants to purchase an aggregate of 270,000 shares of common stock. The notes bore interest at a rate equal to 5.0% per annum, and all principal and accrued interest thereunder was due and paid on or before December 18, 2010. If an event of default were to occur, the notes would thereafter bear interest at a rate equal to 25% per annum. On October 18, 2010, these notes were pre-paid and satisfied in their entirety. The warrants have an exercise price of $2.25 per share of common stock and are exercisable in accordance with their terms at any time on or before the close of business on August 20, 2013. These warrants represented a discount on the notes payable, therefore were valued using the Black-Scholes valuation method and bifurcated which established a discount on notes payable of $150,893 with a corresponding increase to paid-in-capital. The discount was amortized to interest expense over the life of the note until October 18, 2010.

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 conversion 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.

On March 18, 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.

On February 12, 2010, we issued 500,000 shares of common stock to one institutional investor upon conversion of 500,000 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 January 2010, we entered into individual purchase agreements with certain investors pursuant to which we sold an aggregate of 4,000,000 shares of Odyssey   s common stock and warrants to purchase up to 2,400,000 shares of common stock to such investors. The common stock and warrants were sold as units, with each unit consisting of one share of common stock and a warrant to purchase 0.6 shares of common stock. The purchase price for each unit was $1.565. The warrants have an exercise price of $2.25 per share of common stock and are exercisable

in accordance with their terms at any time on or before the close of business on January 29, 2013. The net proceeds to us from the registered direct public offering, after deducting placement agent fees and its offering expenses, and excluding the proceeds, if any, from the exercise of the warrants issued in the offering, were approximately $6.1 million.

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 will be reduced for 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 nine-month periods ended September 30, 2011 and 2010 was $1,347,471 and $1,406,640, respectively, and for the three-month periods ended September 30, 2011 and 2010 was $449,157 and $469,092, respectively.

We did not issue stock options in the three-month period ended September 30, 2011. The weighted average estimated fair value of stock options granted during the three-month period ended September 30, 2010, was $ .84. 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.

	September 30, 2011	September 30, 2010
Risk-free interest rate		.67%
Expected volatility of common stock		70.54%
Dividend yield		0%
Expected life of options		3.3 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. At September 30, 2011, we have a $3,500,773 marine service obligation that will be recognized as revenue over the period of time the contractual marine services are provided. At December 31, 2010, related to one marine search services contract, we had deferred revenue of $730,098.

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 September 30, 2011, our uninsured cash balance was approximately $8,000,000.

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 $1,300 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 $2,500 per

month until maturity in April 2012. 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.

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NOTE M DERIVATIVE FINANCIAL INSTRUMENTS

As more fully discussed in NOTE O, (i) on October 11, 2010, we entered into the Series G Convertible Preferred Stock and Warrant Financing Transaction and the Series G Convertible Preferred Stock and Warrant Settlement Transactions, which gave rise to our recognition and classification of derivative financial instruments, (ii) in April 2011 certain investors redeemed Series G Preferred Stock for cash of $757,500, and (iii) on April 14, 2011 the remaining outstanding shares of Series G Preferred Stock were modified and an additional 525,000 warrants were issued in connection with the modification.

The following tables summarize the components of our derivative liabilities as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Derivative liabilities:		
Compound embedded derivative	$ 3,335,136	$ 4,075,344
Warrant derivative	2,768,771	2,287,800
Total derivative liabilities	$ 6,103,907	$ 6,363,144

	September 30, 2011	December 31, 2010
Common shares linked to derivative liabilities:		
Compound embedded derivative	2,940,000	3,360,000
Warrant derivative	2,325,000	1,800,000
Total common shares linked to derivative liabilities	5,265,000	5,160,000

The following table summarizes the changes in fair values of our derivative liabilities, which are reflected in income, during the three and nine-months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Derivative (expense) income:				
Compound embedded derivative	$ 1,185,555	$	$ 740,208	$
Warrant derivative	564,454		425,179	
Total derivative (expense) income	$ 1,750,009	$	$ 1,165,387	$

The Series G Convertible Preferred Stock included 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. Current accounting principles that are 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 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 such types of 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.

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 assumptions and results arising from the Monte Carlo Simulations process are as follows at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31 2010
Quoted market price of our common stock	$ 2.46	$ 2.78
Contractual conversion rate	$ 1.78	$ 1.78
Implied expected term (years)	0.70	0.81
Market volatility:		
Range of volatilities	69.73%-125.36%	57.69%-73.28%
Equivalent volatility	104.27%	61.59%
Market-risk adjusted interest rate:		
Range of rates	12.0%-32.00%	8.0%-33.09%
Equivalent market-risk adjusted interest rate	14.46%	13.55%
Credit-risk adjusted yield rate:		
Range of rates	3.21%-4.85%	3.46%-4.81%
Equivalent credit-risk adjusted yield rate	3.20%	3.54%
Risk-free rates using yields on zero coupon US Treasury Security rates:		
Range of rates	0.13%-0.42%	0.29%-1.02%

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The following table reflects the issuances of compound embedded derivatives and changes in fair value inputs and assumptions related to the compound embedded derivatives during the nine-months ended September 30, 2011.

	Amount
Balance at January 1, 2011	$ 4,075,344
Issuances	
Expirations from redemptions of host contracts reflected in income	(676,718)
Changes in fair value inputs and assumptions reflected in income	(63,490)
Balance at September 30, 2011	$ 3,335,136

Fair value adjustments associated with redeemed Series G Preferred shares were recorded through the respective dates of redemption and amounted to expense of $52,052. Upon the redemption of the Series G Preferred shares for cash at par value discussed in the introductory paragraph and Note O, the compound embedded derivative option associated with the redeemed shares expired and was written off to income in the amount of $676,718. 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. To illustrate, during the period from December 31, 2010 and September 30, 2011, the quoted market price of our common stock decreased from $2.78 to $2.46. That decrease largely caused the decrease in fair value during that period.

In addition to the Series G Convertible Preferred Stock, we also issued warrants to acquire 1,800,000 of our common shares. On April 14, 2011, we issued the investors additional warrants to acquire 525,000 shares of common stock as consideration for the modification described in NOTE O. These warrants required liability classification as derivative financial instruments because certain down-round anti-dilution protection features included in the warrant agreements are not consistent with the concept of equity. We applied the Trinomial 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 Trinomial 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 utilized in the Trinomial Lattice process are as follows for April 14, 2011, September 30, 2011 and December 31, 2010:

	April 14, 2011	September 30, 2011	December 31 2010
Quoted market price of our common stock	$ 3.36	$ 2.46	$ 2.78
Contractual exercise rate	$ 2.75	$ 2.50-$2.75	$ 2.50
Effective anti-dilution adjusted exercise price	$ 2.59	$ 2.49-$2.74	$ 2.46
Term (years)	3.00	2.03-2.54	2.78
Range of market volatilities	59.51%-73.01%	68.9%-129.5%	57.64%-74.21%
Range of risk-free rates using yields on US Treasury Securities	0.07%-1.27%	0.02%-0.43%	0.12%-1.02%

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

	Amount
Balance at January 1, 2011	$ 2,287,800
Issuances of Modification Warrants on April 14, 2011	906,150
Exercises	
Changes in fair value inputs and assumptions reflected in income	(425,179)

Balance at September 30, 2011	$ 2,768,771

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

NOTE N REVENUE PARTICIPATION RIGHTS

The Company s participating revenue rights consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Cambridge project	$ 825,000	$ 825,000
Republic (now *Seattle*) project	62,500	62,500
Galt Resources, LLC	7,512,500	
Total participating revenue rights	$ 8,400,000	$ 887,500

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 arrangements for a project syndication deal with Galt Resources LLC (Galt) for which they can invest up to $10,000,000 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 allows Galt to select only one project. As of September 30, 2011, Galt has invested $7,512,500 and is permitted to invest approximately an additional $2.5 million in the project with the permission of Odyssey, which we are not currently anticipating. The Galt invested balance will be amortized to revenue over the expected revenue stream of the selected project.

NOTE O REDEEMABLE PREFERRED STOCK

On October 6, 2010, we designated 24 shares of our authorized preferred stock as Series G 8% Convertible Preferred Stock, par value $0.0001 per share (the Series G Preferred). On October 12, 2010, we issued 24 shares of Series G Preferred for cash and in settlement of debt, as further discussed below. During April 2011, certain holders redeemed 3 shares of Series G Preferred for cash under the terms and conditions of the Series G Preferred Certificate of Designation. Significant terms and conditions of the Series G Preferred, as modified on April 14, 2011 (as discussed later in this NOTE), 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 are cumulative and 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 are entitled to one vote for each share of common stock into which the Series G Preferred is convertible and are 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, 2012, 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 June 15, 2011 at a redemption price of 100% of the liquidation value. Commencing after October 1, 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 June 15, 2012, at a redemption price equal to the original value plus the aforementioned incremental 1% and 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 $928,482. Over a period from April 4, 2011 to April 8, 2011, investors redeemed 3 shares of Series G Preferred for cash of $757,500. On April 14, 2011, we modified the conversion and redemption dates noted above for consideration of warrants to purchase 525,000 shares of our common stock that are exercisable for a three year period at $2.75 per share.

We accounted for the Series G Preferred and warrants issued for cash as a financing transaction, wherein the net proceeds that we received were 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 on 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 September 30, 2011 and 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 and ASC 815.

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 of embedded terms and features that have characteristics of derivatives to be evaluated for bifurcation and separate accounting in instances where their economic risks and characteristics are not clearly and closely related to the risks of the host contract. 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 for the three- and nine-months ended September 30, 2011 amounted to $-0- and $1,789,403, respectively.

Cumulative dividends on the Series G Preferred Stock for the three- and nine-months ended September 30, 2011 amounted to $105,000 and $343,479, respectively. Dividends are recorded when they are declared. Accordingly, we do not have any cumulative dividends that have not been declared as of September 30, 2011.

Redemption:

In April 2011, we redeemed 3 shares from certain shareholders of the Series G Preferred for cash of $757,500 under the terms and conditions of the Series G Preferred Certificate of Designation. The carrying value of these shares of Series G Preferred amounted to $558,926 on the redemption dates. We have recorded the difference between the redemption values paid and the carrying values amounting to $198,574 as a deemed dividend in paid-in capital. See NOTE M for our accounting for the associated compound embedded derivative that had been bifurcated and classified in liabilities.

During October 2011, we redeemed 20 shares of the Series G Preferred for cash of $5,000,000 plus accumulated dividends. The carrying value of these shares of Series G preferred was $5,000,000. We are currently reviewing the required accounting treatment for the attached compound embedded derivative that was bifurcated and classified as a liability since inception.

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Modification:

On April 14, 2011, we entered into separate agreements with two holders of Odyssey s Series G Preferred. The two holders are accredited investors and hold, in aggregate, shares representing $5,250,000 of the original $6,000,000 issued on October 12, 2010. As we disclosed above, the original Certificate of Designation relating to the Series G Preferred Stock included (a) an option for the holders thereof to convert their shares of Series G Preferred Stock into shares of common stock that became exercisable on April 15, 2011, and (b) an option for the holders to redeem the shares of Series G Preferred Stock at any time after December 15, 2011, with the redemption price increasing by 1% every month beginning April 1, 2011. In consideration of the issuance of warrants to purchase an additional 525,000 shares of common stock at an exercise price of $2.75 per share, the holders agreed to extend by six months the dates upon which the conversion option and the redemption option become exercisable and date upon which the redemption price begins to increase by 1% per month.

We accounted for the modification of the Series G Preferred as an extinguishment based upon the significance of the modification and the significance of the warrant consideration, which had a fair value of $906,150 on the modification date. In applying extinguishment accounting, the modified preferred shares are assumed to replace the existing preferred shares at redemption value with a charge to common stockholders equity. The difference of $1,362,443, plus the fair value of the warrant consideration, or $2,268,593 was charged to paid-in capital in the absence of accumulated earnings.

Warrants:

The warrants issued in the financing and exchange transactions have terms of three years and exercise prices of $2.50. The warrants issued in the April 14, 2011 modification transaction have terms of three years and exercise prices of $2.75. The contractual exercise prices are 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

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 have the right to require the investor to purchase an additional senior convertible note in the original principal amount of up to $5.0 million (the Additional Note, and, together with the Initial Note, the Notes) 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. The Notes will amortize in equal monthly installments commencing on the eight-month anniversary of the initial closing date. The Notes may be converted into our common stock, at the option of the holder, at any time following issuance, with respect to the Initial Note, or at any time following six months after the date of issuance, with respect to the Additional Note. The initial conversion price of the Initial Note is $3.74, subject to adjustment as provided in the Initial Note. On the six-month anniversary of the initial closing date, the 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). 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 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.

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 may not be exercised unless the investor has purchased the Additional Note. On the six-month anniversary of the initial closing date, the exercise price applicable to the Warrant will be adjusted to 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 (as applicable, the Exercise Price). 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.

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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). We are currently reviewing the accounting treatment of this transaction and the possible financial statement impact it may have.

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, 2010.

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

We have numerous shipwreck projects in various stages of development around the world. In order to protect the targets of our planned search or recovery operations, in some cases we will defer disclosing specific information relating to our projects until we have located a shipwreck or targets of interest and determined a course of action to protect our property rights.

Additional information regarding our announced projects may be found in our Annual Report on Form 10-K for the year ended December 31, 2010 and our Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011. Only projects with material status updates since those reports 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. The *Ocean Alert* was sold in October 2011. Additional information is available later in this section.

Atlas Search Project

Between 2005 and 2011, we searched more than 5,000 square nautical miles of seabed in the western English Channel and the Western Approaches to the Channel, recording approximately 300 shipwrecks. The shipwrecks discovered include site *35-F,* the *Marquise de Tornay*, and HMS *Victory* (1744) as well as other identified and unidentified shipwrecks. Additional high-value targets are believed to be within the Atlas search area.

Operations in the *Atlas* search area during the quarter included additional search, inspection and verification work on several targets.

HMS *Victory* Project

We discovered and conducted a preliminary investigation of the shipwreck of Admiral Balchin s HMS *Victory* (which sank in 1744) during our 2008 Atlas season. HMS *Victory* was the inspiration for and direct predecessor to Nelson s *Victory* and was the mightiest and most technically advanced vessel of her age.

We have been cooperating closely with the United Kingdom (UK) Ministry of Defence (the MOD) on the project. All activities at the site, including the recovery of two bronze cannon, have been conducted in accordance with protocols approved by the UK Government (UKG) and Royal Navy officials. The *Victory* discovery was announced publicly February 2, 2009. On September 18, 2009, we announced an agreement with the UKG on an 80% salvage award for the cannon recovered from the site.

The UKG (MOD and Department for Culture, Media and Sport) held a Public Consultation on options for the management of the wreck site of HMS *Victory* and the results of that consultation were published on July 19, 2011. The report concludes it is unlikely public funds can be made available to support the project therefore other funding options must be explored. The UKG has decided to place responsibility for future management of the site on a charitable trust. We intend to keep open the offer made to the UK Government and/or charitable trust pending final disposition of the shipwreck.

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After notification and agreement with the UK Ministry of Defence, Odyssey conducted a reconnaissance of the site in April 2011 and in October 2011 and discovered additional damage to the site. A full report on our findings has been provided to the MOD. We are continuing negotiations for the excavation and recovery of artifacts believed to be at risk on the site consistent with the archaeological principles of the United Nations Educational Scientific and Cultural Organization s (UNESCO) Convention for the Protection of Underwater Cultural Heritage (CPUCH).

Robert Fraser Projects (*Enigma II, Firebrand, Shantaram*)

Odyssey executed agreements in 2010 with clients of Robert Fraser & Partners LLP (RFP) for three shipwreck search projects code named *Firebrand, Shantaram* and *Enigma II.*

Two of the three Robert Fraser Marine search projects conducted in 2010 moved into the verification phase. Based on preliminary results, there is evidence suggesting that at least one of the target shipwrecks has been located. Agreements for both of these projects have been executed and funded. Marine operations on one of these verification projects took place during the second and third quarter. Data is being evaluated and when complete, a full report on the findings will be prepared for clients of Robert Fraser and Partners, who will determine next steps, if any, on the sites discovered and documented.

To protect the security of the operations and search areas, specific location details for *Enigma*, *Firebrand* and *Shantaram* are not being released at this time

***Gairsoppa* Project**

On January 25, 2010, Odyssey was awarded the exclusive salvage contract for the cargo of the SS *Gairsoppa* by the United Kingdom (UK) Government Department for Transport. The contract was awarded after a competitive bid process and is scheduled to expire in January 2013.

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 United Kingdom (UK) 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 UK government

Under the contract, Odyssey assumes the risk, expense, and responsibility for the search, cargo recovery, documentation, and marketing of the cargo. If the salvage is successful, Odyssey will retain 80% of the net salved value of the silver recovered under the contract. This project aligns with our strategy to focus on partnership projects with several governments that provide straightforward legal ownership arrangements.

In June 2011, we executed a charter agreement to utilize the Russian Research Vessel *Yuzhmorgeologiya* to conduct search operations for the SS *Gairsoppa.* Search operations began in July 2011.

On September 26, 2011, we announced we confirmed the identity and location of the SS *Gairsoppa*. We are currently specifying, acquiring and assembling the tools and equipment for the salvage, and anticipate that operations will begin in the spring as soon as the weather window begins to open up in the North Atlantic.

***Mantola* Project**

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 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*. Under the agreement, Odyssey will retain 80% of the net salved silver value recovered.

We are planning to conduct the recovery expedition in conjunction with the SS *Gairsoppa* recovery.

Subsea Mineral Mining and Exploration Project

The *Dorado Discovery* completed charter work conducting geological exploration services to Neptune Minerals, Inc. (Neptune or NMI) to explore NMI s South Pacific tenement areas. The 100-day charter concluded in October 2011. The charter was valued at $6.9 million representing both cash and additional equity in Neptune. This expedition documented several new discoveries of SMS deposits with assay results indicating substantial incidence of high grade gold, silver, zinc and copper ore.

The charter agreement has generated positive cash flow for Odyssey and has also allowed us to acquire additional equity at attractive valuations. 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. At September 30, 2011, we owned 6,146,600 shares (approximately 33% of NMI). Subsequent to September 30, 2011, NMI was in the process of a private offering for two million Class B common shares at $7.50 per share.

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As a result of our operational success on the Dorado and Neptune projects, we are also currently negotiating projects with several other companies who requested our technical and operational assistance on ocean mining projects in various parts of the world.

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. 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 have filed Petitions for Rehearing *En Banc*, requesting that the entire Court hear the case. We are currently awaiting a decision, and if rehearing is denied we intend to appeal the case to the United States Supreme Court. 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 the 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 has filed a Motion to Dismiss the Amended Complaint and is awaiting ruling on the motion. We intend to 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, 2010, 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 September 30, 2011, compared to three months ended September 30, 2010

Increase/(Decrease) (Dollars in millions)	2011	2010	2011 vs. 2010 $	 %
Artifact sales and other	$ .2	$	$ .2	446%
Exhibit				n/a
Expedition charter	5.7	9.8	(4.1)	(42)
Total revenue	$ 5.9	$ 9.8	$ (3.9)	(40)%
Cost of sales	$ .1	$	$ .1	213%
Marketing, general and administrative	2.3	2.2	.1	6
Operations and research	7.5	6.6	.9	14
Total operating expenses	$ 9.9	$ 8.8	$ 1.1	13%

Other income (expense)	$ (1.2)	$ (2.3)	$ 1.2	50%

The explanations that follow are for the three months ended September 30, 2011, compared to the three months ended September 30, 2010.

Revenue

The decrease in total revenue of $3.9 million was primarily related to a decrease in expedition charter revenue of $4.1 million offset by an increase in artifact sales and exhibit revenue of $.2 million. The decrease in expedition charter revenue was associated with an increase in subsea mineral mining charters ($.3 million) offset by a reduction of Robert Fraser shipwreck project revenue ($2.2 million) and other miscellaneous government and commercial charter revenue ($2.2 million). Our revenue from subsea mineral mining generated during the third quarter with Neptune Minerals was $5.3 million.

During the three-month period ended September 30, 2011, we have seen an increase in artifact sales of $.2 million versus 2010 primarily due to the addition of a major new distributor in the first quarter 2011 and increased marketing efforts.

Odyssey s exhibit, ***SHIPWRECK! Pirates & Treasure***, was on display for one month in the first quarter 2010 (Discovery Place, Charlotte, NC) and then was undergoing renovations through the third quarter 2010 before opening October 1, 2010 at the Maryland Science Center in Baltimore. The exhibit was open for seven months in 2011 (Maryland Science Center, Baltimore & G.WIZ Science Museum in Sarasota, Florida). The exhibit is currently on display at the Witte Museum in San Antonio, Texas. The exhibit is currently booked through mid-2012.

Operating Expenses

Cost of sales increased by $.1 million in 2011 versus 2010 due to an additional volume of approximately 280 silver coins sold in the third quarter 2011 versus 2010.

Marketing, general and administrative expenses were $2.3 million in 2011 as compared to $2.2 million in 2010. The increase of $.1 million primarily represented an increase in loan origination fees related to our term loan and shareholder maintenance expenses due to an increase in shares in 2011.

Operations and research expenses were $7.5 million in 2011 as compared to $6.6 million in 2010. The $.9 million increase was primarily due to marine operations, vessel and research expenses. Marine operations and vessel expenses were unfavorable by $.6 million between the two periods. The *Dorado Discovery* was favorable $.5 million in the third quarter 2011 versus 2010 primarily related to operating day utilization. Other vessels chartered for specific projects (Kommandor Stuart utilized in 2010 for Robert Fraser and other miscellaneous expedition charters and RV *Yuzhmorgeologiya* utilized for the Gairsoppa and Mantola projects in 2011) caused an unfavorable variance in 2011 versus 2010 by $.5 million. This variance was also influenced by greater vessel operating day utilization. The Ocean Alert was unfavorable $.6 million for the three months in 2011 due to a write down in September 2011 because the vessel was sold in October 2011 and written down to salvage value of $.5 million in September 2011. The sale of the Ocean Alert eliminates approximately $.4 million of stand-by operating expenses per quarter. Archeological and research expenses were unfavorable $.3 million in the third quarter 2011 primarily related to research expenses for the Gairsoppa project.

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. Beginning in the fourth quarter 2009, it also included the income or loss from our equity investment in subsea mineral mining. Beginning in the fourth quarter 2010 it included the change in fair value of the derivatives related to our issuance of Series G convertible preferred stock and gain/(loss) on debt extinguishment. The favorable other income variance of $1.2 million in the third quarter of 2011 was primarily related to a favorable change in the fair value of the derivative ($1.8 million, see Note M) and interest and other expense ($.2 million) offset by an unfavorable increase of $.8 million due to the loss on our equity investment in the mining business for the three months of 2011 versus 2010 (see Note F).

Nine months ended September 30, 2011, compared to nine months ended September 30, 2010

Increase/(Decrease) (Dollars in millions)	2011	2010	2011 vs. 2010 $	2011 vs. 2010 %
Artifact sales and other	$ .7	$ .3	$ .3	101%
Exhibit	.1	.1		53
Expedition charter	14.0	16.7	(2.7)	(16)
Total revenue	$ 14.8	$ 17.1	$ (2.3)	(14)%
Cost of sales	$ .3	$ .2	$ .1	90%
Marketing, general and administrative	6.9	6.7	.2	2
Operations and research	16.2	15.3	1.0	6
Total operating expenses	$ 23.5	$ 22.2	$ 1.3	6%

Other income (expense)	$ (3.6)	$ (2.8)	$ .7	26%

The explanations that follow are for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010.

Revenue

The decrease in total revenue of $2.3 million was primarily related to a decrease in expedition charter revenue of $2.7 million offset by an increase in artifact sales and exhibit revenue of $.4 million. The decrease in expedition charter revenue was associated with an increase in subsea mineral mining charters ($5.6 million) offset by a reduction of Robert Fraser shipwreck project revenue ($5.2 million) and other miscellaneous government and commercial charter revenue ($3.1 million). Our revenue from subsea mineral mining generated from two charters with Neptune Minerals was $10.8 million through September 2011.

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During the first nine months of 2011 we have seen an increase in artifact sales of $.3 million versus 2010 primarily due to the addition of a major new distributor in the first quarter 2011 and increased marketing efforts.

Odyssey s exhibit, ***SHIPWRECK! Pirates & Treasure***, was on display for one month in the first quarter 2010 (Discovery Place, Charlotte, NC) and then was undergoing renovations through the third quarter 2010 before opening October 1, 2010 at the Maryland Science Center in Baltimore. The exhibit was open for seven months in 2011 (Maryland Science Center, Baltimore & G.WIZ Science Museum in Sarasota, Florida). The exhibit is currently on display at the Witte Museum in San Antonio, Texas. The exhibit is currently booked through mid-2012.

Operating Expenses

Cost of sales increased by $.1 million in 2011 versus 2010 due to an additional volume of approximately 700 silver coins sold in the nine months of 2011 versus 2010.

Marketing, general and administrative expenses were $6.9 million in 2011 as compared to $6.7 million in 2010. The $.2 million increase primarily represented an increase in loan origination fees related to our term loan, shareholder maintenance expenses due to an increase in shares in 2011 and marketing expenses related to our artifact sales.

Operations and research expenses were $16.2 million in 2011 as compared to $15.3 million in 2010. The $1.0 million increase was primarily due to marine operations and vessel expenses. Marine operations and vessel expenses were unfavorable by $.9 million in 2011 versus 2010. The *Dorado Discovery* comprised a $2.3 million increase in the nine months 2011 versus 2010 primarily because the ship was not in active service until June 2010. Our other chartered vessels (Kommandor Stuart utilized in 2010 for Robert Fraser and other miscellaneous expedition charters and RV *Yuzhmorgeologiya* utilized for the Gairsoppa and Mantola projects in 2011) were favorable in 2011 versus 2010 by $.7 million also due to vessel operating day utilization. The Ocean Alert was favorable $1.2 million for the nine months in 2011 because it was standing by in port. However, this was offset by a $.6 million write down in September 2011 because the vessel was sold in October 2011 and written down to the net asset value of $.5 million in September 2011. Other marine operations expenses were favorable $.1 million. Archeological and research expenses were also unfavorable $.1 million. This included unfavorable research expenses of $.3 million for the Gairsoppa project in the third quarter 2011 offset by other favorable archeological and research 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. Beginning in the fourth quarter 2009, it also included the income or loss from our equity investment in subsea mineral mining. Beginning in the fourth quarter 2010 it included the change in fair value of the derivatives related to our issuance of Series G convertible preferred stock and gain/(loss) on debt extinguishment. The unfavorable other expense variance of $.7 million through the third quarter of 2011 was primarily related to a favorable change in the fair value of the derivative ($1.2 million, see Note M) and interest and other expense ($.1 million) offset by an unfavorable increase of $2.0 million due to the loss on our equity investment in the mining business for the nine months of 2011 versus 2010 (see Note F).

Liquidity and Capital Resources

	Nine Months Ended	
(Dollars in thousands)	**September 2011**	**September 2010**
Summary of Cash Flows:		
Net cash used by operating activities	$ (9,236)	$ (7,485)
Net cash used by investing activities	(559)	(1,549)
Net cash provided by financing activities	19,605	7,794
Net increase in cash and cash equivalents	$ 9,811	$ (1,240)
Beginning cash and cash equivalents	236	2,145
Ending cash and cash equivalents	$ 10,046	$ 906

Discussion of Cash Flows

Net cash used by operating activities for the first nine months of 2011 was $9.2 million. This amount primarily reflected an operating loss of $12.2 million offset in part by non-cash items of $2.2 million including depreciation and amortization ($1.5 million), share-based compensation ($1.3 million), write down of vessel Ocean Alert to salvage value ($.6 million) as well as a favorable change in the fair value of derivative liabilities ($1.2 million increase to Net Loss, see NOTE M). Other working capital changes (including non-current inventory) also provided a decrease in cash of $.8 million. These changes included an increase of $2.8 million of deferred revenue offset by a decrease in accounts payable and accrued expenses of $2.0 million. Net cash used in operating activities for the first nine months of 2010 was $7.5 million. This amount primarily reflected an operating loss of $7.9 million offset in part by non-cash items including depreciation and loan discount amortization ($1.7 million), share-based compensation ($1.4 million) and loss from unconsolidated entity ($2.4 million). Working capital changes also included an increase in accounts receivable of $8.4 million ($1.6 million represents the amount due on the *Shantaram* project, $5.4 represents amount due from Dorado Ocean Resources, Ltd. and $.8 million due from an insurance adjuster in the wake of the airline accident in the Eastern Mediterranean), an increase in accounts payable of $2.8 million ($1.7 million represents ship charters and fuel), an increase in deferred revenue of $.4 million ($1.6 million representing deferred revenue outstanding on the *Firebrand* project offset by recognition of revenue for projects *Enigma* and *Shantaram*), and other net sources of working capital of $.1 million.

Cash flows used in investing activities for the first nine months of 2011 were $.6 million which primarily represented the purchase of marine property and equipment. Cash flows used in investing activities for the first nine months of 2010 were $1.5 million which primarily represented marine property and equipment purchases primarily for our business venture into subsea mineral mining and exploration.

Cash flows provided by financing activities for the first nine months of 2011 were $19.6 million which primarily represented proceeds from the issuance of common stock ($15.6 million) and an increase in deferred income from revenue participation rights on the Galt project ($7.5 million, see NOTE N). The deferred income increase represented the proceeds from the Galt project which will be amortized into revenue if, or when, the designated project is recovered and monetized. Other uses which offset the aforementioned proceeds included redemption of a portion of the outstanding Series G convertible preferred stock ($.8 million), preferred dividends ($.2 million), and repayment of mortgage and loans payable ($2.5 million). A principal loan payment of $2.0 million was paid in August 2011 on the revised bank term loan which closed in May 2011 (see Other Cash Flow and Equity Areas below). Cash flows provided by financing activities for the first nine months of 2010 were $7.8 million which included $6.2 million proceeds from the issuance and sale of common stock in January 2010 offset by fees related to the private offering of $.2 million and $1.8 million proceeds from the issuance of promissory notes in August 2010.

Other Cash Flow and Equity Areas

At September 30, 2011, we had cash and cash equivalents of $10.0 million, an increase of $9.8 million from the December 31, 2010, balance of $.2 million.

On October 6, 2010, we entered into separate purchase agreements with certain investors to sell 24 shares of Series G 8% Convertible Preferred Stock, par value $0.0001 per share, and warrants to purchase up to 1,800,000 shares of Odyssey s common stock to such investors. The Series G preferred stock and warrants were offered as units, with each unit consisting of one share of Preferred Stock and a Warrant to purchase 75,000 shares of common stock. The purchase price for each unit was $250,000. The transaction closed on October 12, 2010, and we sold 20 of the units for cash, and four of the units were issued upon tender of an aggregate of $1.0 million of principal amount of the promissory notes that Odyssey issued in August 2010 by the holders thereof. Accordingly, the net cash proceeds to Odyssey were approximately $5.0 million (See NOTE O).

In January 2011, we executed agreements to provide marine archaeological excavation and related services on an existing project to certain client companies of Robert Fraser & Partners LLP (RFP). The work will be conducted on a shipwreck site that we discovered and inspected during a recently completed survey carried out under contract with the RFP client companies. The contract provides for cash payments totaling approximately $2.3 million to Odyssey (of which $2.1 million was received in the first quarter) plus additional payments based upon revenue derived from the project. (See ITEM 2, Operational Status, Robert Fraser Projects (*Enigma II,* *Firebrand*, *Shantaram*).

In February 2011, we closed on a project syndication deal with Galt Resources LLC. Through September 2011, we received approximately $7.5 million from Galt which represents rights to future revenues of the 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. In addition they will share in the future net proceeds of the project at the rate of 1% for every one million dollars invested. The agreement allows Galt to select only one project, and Galt will be allowed to invest up to $10 million in the project with the permission of Odyssey.

On February 16, 2011, we entered into a 50-day charter agreement with Neptune Minerals PLC and Neptune Minerals, Inc. and Neptune Resources Ltd. for the *Dorado Discovery* to supply geological exploration services to Neptune Minerals to explore their tenements in the waters surrounding New Zealand in the first half of 2011**.** Odyssey received $3 million in cash for the charter and also received a minority equity position in Neptune Minerals, Inc.

In March 2011, we executed agreements to expand a search and provide marine archaeological excavation and related services to certain client companies of RFP. Additional work will be conducted on and around a site that we discovered and inspected during a recently completed survey carried out under contract with the RFP client companies. The contract provides for cash payments totaling approximately $2.0 million to Odyssey (of which $1.0 million was received in the first quarter and an additional $.8 million was received in April 2011), plus additional payments based upon revenue derived from the project. See ITEM 2, Operational Status, Robert Fraser Projects (*Enigma II,* *Firebrand*, *Shantaram*).

In March 2011, we executed an agreement with client companies of RFP to provide mining exploration and certain drilling operations in a tenement area controlled by Dorado Ocean Resources. The drilling operations will be conducted on a Seafloor Massive Sulfide (SMS) deposit that was surveyed by us during the first 100 days of exploration in Dorado s South Pacific concession areas in 2010. We received $1.4 million with another $.1 million due at the start of the project plus additional payments based upon revenue derived from the project, if any. Three

separate areas have been identified for sample drilling in one tenement based on preliminary sample analysis. This contract is for exploration and drilling services in one of those areas. At the present time it is uncertain whether additional contracts for the remaining two areas in the tenement will be consummated due to the acquisition of Dorado by Neptune Minerals. Final payment of $.2 million was received in March 2011 for the Firebrand project which was completed in the second quarter 2011.

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On April 14, 2011, we entered into separate agreements with two holders of our Series G 8% Convertible Preferred Stock. The two holders represented $5,250,000 of the original $6,000,000 Series G Convertible Preferred Stock issued on October 12, 2010. The Certificate of Designation relating to the Series G Convertible Preferred Stock includes (a) an option for the holders thereof to convert their shares of Series G Preferred Stock into shares of common stock that became exercisable on April 15, 2011, and (b) an option for the holders to redeem the shares of Series G Convertible Preferred Stock at any time after December 15, 2011, with the redemption price increasing by 1% per every month beginning April 1, 2011. In consideration of the issuance by Odyssey of warrants to purchase an additional 525,000 shares of common stock at an exercise price of $2.75 per share, the holders agreed to extend by six months the dates upon which the conversion option and the redemption option become exercisable and date upon which the redemption price begins to increase by 1% per month. The shares of Series G Convertible Preferred Stock held by the remaining holders, representing $750,000 of the offering, were redeemed in April 2011 in accordance with the Certificate of Designation (See NOTE O). Also, in October 2011, Odyssey redeemed the largest holder of the Series G Preferred Stock for $5.0 million plus accrued dividends. The amount of Series G Convertible Preferred Stock remaining to be either converted to common stock or redeemed is $.3 million plus accrued dividends.

On June 3, 2011, Neptune completed a share exchange with the stockholders of Dorado whereby each one outstanding share of DOR was exchanged for 1,000 shares of NMI Class B non-voting common stock. Prior to the share exchange, Odyssey was a stockholder of DOR, and we received 1.65 million shares of NMI Class B non-voting common stock pursuant to the share exchange. In connection with the share exchange, NMI executed an assignment and assumption agreement, whereby NMI assumed $8.2 million of the outstanding debt of DOR owed to us. In addition, we executed a debt conversion agreement with NMI, whereby we converted $2.5 million of the debt for 2.5 million shares of NMI Class B non-voting common stock (See NOTE F).

On June 1, 2011, our stockholders approved an amendment to our articles of incorporation to increase the number of shares of common stock, par value $0.0001 per share, from 100,000,000 to 150,000,000. We filed the amendment on June 6, 2011.

On June 8, 2011, we entered into a 100-day charter agreement with Neptune, Bluewater Metals (South Pacific) Ltd., and Bluewater Metals (Solomon Islands) Ltd. for the *Dorado Discovery* to supply geological exploration services to Neptune Minerals to explore tenements in the waters of the South Pacific previously held by Dorado. Odyssey has been paid $6.9 million for its services in a combination of cash and additional equity in Neptune. As of September 30, 2011, we had approximately a 33 % equity ownership in Neptune (See NOTE F). The charter concluded in October 2011.

On June 21, 2011 Odyssey completed a public offering of 5,520,000 shares of common stock at a price to the public of $3.05 whereby Odyssey received $15.6 million in net proceeds. We intend to use the net proceeds from the offering for shipwreck exploration and recovery projects, other working capital and for general corporate purposes.

On June 27, 2011, we announced we were added to the Russell 3000® and Russell Global® Indexes as of close of trading on Friday, June 24, 2011, and will remain in place for the ensuing 12-month period. All Russell indexes are subindexes of the Global Index. The addition to the Russell 3000® and Russell Global® Indexes will expand awareness of our company among institutional investors as we continue to execute our growth strategy.

Bank Term Loan

On May 4, 2011, we amended our revolving credit facility to replace it with a $5 million term loan maturing on April 23, 2012. A principal payment of $2 million was due and paid by August 1, 2011 with the remainder due upon maturity. The facility bears a floating interest rate 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 payable at closing. No restricted cash payments will need to be kept on deposit. As a condition to the loan renewal, we were required to amend the mortgage loan whereby we are required to pay additional principal to meet an 80% loan-to-value (LTV) based upon an independent real estate appraisal. The additional principal payments will be at $100,000 per month until the loan balance meets the 80% LTV. Based on this condition, we have commenced the repayment of $.6 million starting in July 2011. The amended term loan is secured by approximately 27,600 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.

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Trends and Uncertainties

Our current 2011 business plan estimates that some of our planned projects may be financed through project syndications or other partnership and project financing opportunities. One or more of these projected project financing or partnership opportunities may not be realized, or we may choose not to avail ourselves of these financing opportunities, which may require the need for additional cash. Based upon our current expectations, we believe our cash position will be sufficient to fund operating cash flows through the rest of 2011 taking into account our current cash position and expected revenues from multiple sources, including projected sales of products and contracted services, project financing and other potential financing opportunities. Our renewed term loan with Fifth Third Bank required a $2.0 million payment which was made in July 2011, and we also redeemed $5.0 million of the remaining of Series G Convertible Preferred Stock in October 2011. However, we will need to obtain additional capital if cash flow from operations or project financing is not sufficient to meet operational requirements. 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, or from generating income from other projects. We have identified one of our potential high value target shipwrecks, HMS *Victory,* and we have presented a proposal for the archaeological excavation, conservation and management of that shipwreck from which we expect to generate revenues. There is evidence suggesting at least one of the Robert Fraser client shipwreck targets has been located, and is the subject of ongoing operational plans. In addition we have located the SS *Gairsoppa* and the SS *Mantola* shipwrecks, which reportedly contained large quantities of silver we believe may be monetized in 2012. We are also engaged in negotiations to undertake a number of deep-ocean mining exploration projects which may produce additional revenue opportunities. It is possible we may not be able to begin recovery operations on projects as planned, monetize any potential cargo in the short term or successfully conclude negotiations for the mining projects. If cash flow is not sufficient to meet our projected business plan requirements, we will be required to raise additional capital or curtail expenses. While we have been successful in raising the necessary funds in the past, there can be no assurance that we can continue to do so.

New Accounting Pronouncements

As of September 30, 2011, 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.

Recent Developments

On November 8, 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 have the right to require the investor to purchase an additional senior convertible note in the original principal amount of up to $5.0 million (the Additional Note, and, together with the Initial Note, the Notes) 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. The Notes will amortize in equal monthly installments commencing on the eight-month anniversary of the initial closing date. The Notes may be converted into our common stock, at the option of the holder, at any time following issuance, with respect to the Initial Note, or at any time following six months after the date of issuance, with respect to the Additional Note. The initial conversion price of the Initial Note is $3.74, subject to adjustment as provided in the Initial Note. On the six-month anniversary of the initial closing date, the 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). 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 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.

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 may not be exercised unless the investor has purchased the Additional Note. On the six-month anniversary of the initial closing date, the exercise price applicable to the Warrant will be adjusted to 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 (as applicable, the Exercise Price). 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.

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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).

In connection with these transactions, Odyssey paid a placement agent fee of $500,000.

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 $1,300 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 $2,500 per month until maturity in April 2012. 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 third quarter of 2011 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, 2010. There have been no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2010, with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company s securities.

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.

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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)
101.1	Interactive Data File

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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: November 9, 2011

By: /s/ Michael J. Holmes
Michael J. Holmes, Chief Financial

Officer and Authorized Officer