

Edgar Filing: MAREX COM INC - Form 10-K

MAREX COM INC
Form 10-K
April 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2001

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: 000-25129

MAREX, INC.

(Exact name of registrant as specified in its charter)

FLORIDA

65-0354269

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

5835 BLUE LAGOON DRIVE, 4TH FLOOR
MIAMI, FLORIDA

33126

(Address of principal executive offices)

(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (305) 285-2003

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, \$.01 PAR VALUE

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of March 31, 2002 was approximately \$1,159,970 based on the .20

Edgar Filing: MAREX COM INC - Form 10-K

closing price for the Common Stock on the Nasdaq National Market on such date. For purposes of this computation, all executive officers and directors of the registrant have been deemed to be affiliates. Such determination should not be deemed to be an admission that such directors and officers are, in fact, affiliates of the registrant.

The number of shares of Common Stock of the registrant outstanding as of March 31, 2002 was 7,635,848.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to specified portions of the registrant's definitive Proxy Statement to be issued in conjunction with the registrant's 2002 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2001.

MAREX, INC.

TABLE OF CONTENTS

PART I

Item 1.	Business.....
Item 2.	Properties.....
Item 3.	Legal Proceedings.....
Item 4.	Submission of Matters to a Vote of Security Holders.....

PART II

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters.....
Item 6.	Selected Consolidated Financial Data.....
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations..
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.....
Item 8.	Financial Statements and Supplementary Data.....
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures..

PART III

Item 10.	Directors and Executive Officers of the Registrant.....
Item 11.	Executive Compensation.....
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....

Edgar Filing: MAREX COM INC - Form 10-K

Item 13. Certain Relationships and Related Transactions.....

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....

i

PART I

ITEM 1. BUSINESS

THE FOLLOWING DESCRIPTION OF OUR BUSINESS CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, AS DO THE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SECTIONS OF THIS FORM 10-K, ALL OF WHICH RELATE TO SUCH MATTERS AS ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, TECHNOLOGICAL DEVELOPMENTS, AND SIMILAR MATTERS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE, OR ACHIEVEMENTS OF THE COMPANY TO BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. FACTORS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED ELSEWHERE IN THIS REPORT IN THE SECTION ENTITLED "RISK FACTORS" AND THE RISKS DISCUSSED IN OUR OTHER SECURITIES AND EXCHANGE COMMISSION FILINGS.

COMPANY

Marex, Inc. (the "Company" or "Marex") is a software products and technology services company offering high end technology solutions to businesses. Our mission is to improve the efficiency of our customers' technology initiatives. We are currently serving the marine and transportation industries.

The Company has available for the markets it serves three products which include: an e-commerce solution which enables the electronic exchange of business documents and product information; a management information solution which provides a front and back office solution for a retail or dealer store environment; and a telemetry product which is capable of tracking assets from a remote location over the Internet.

Marex has developed a line of client server applications under the name of MarConnect Enterprise, Standard and Advisor ("MarConnect Suite"), which enable the electronic exchange of business documents including the promotion of new product information and advisories. The MarConnect offerings include support for EDI, XML and flat file formats and do not require additional hardware, staff or specialized training. MarConnect Standard and Enterprise were launched during January of 2002, whereas MarConnect Advisor was launched during February of 2002.

The MarConnect Suite replaced MarExpress! and MarexPO!. MarExpress! and MarexPO! provided marine industry buyers and suppliers with an e-procurement solution for the purchase and sale of new parts, supplies, components and equipment through a web-based transaction system. Prior to the launch of MarExpress! and MarexPO!, our Internet based trading exchange, the Exchange, and its successor, Classified and Auctions, were the only products offered to the marine industry. We suspended the Classifieds and Auctions product in the first quarter of 2001.

Edgar Filing: MAREX COM INC - Form 10-K

In October 2001, we completed the acquisition of 100% of the outstanding stock of Software Support Team, Inc. ("Software Support Team"), which is engaged in the business of developing management information solution software for retailers, distributors and dealers. Software Support Team's current product, DockMaster, offers comprehensive business functions to the marine industry through a series of integrated software modules.

The Company has developed a telemetry solution (the "Telemetry Solution") for the marine industry, which we believe to be comprehensive, and is currently marketing this same technology for the transportation industry, as well as other industries. The Telemetry Solution is designed to enable the remote tracking of assets from virtually any location in the world via the Internet by using our MarConnect Suite. Marex has shifted its business strategy from the MarConnect Suite to the Telemetry

1

Solution. A final working prototype has been completed and the marketing of orders commenced during the last week of March 2002.

Marex was originally incorporated in Florida in September 1992.

INDUSTRY OVERVIEW

GROWTH OF TECHNOLOGY SOLUTIONS OVER THE INTERNET

The Internet has emerged as a mass communications and commerce medium enabling millions of people worldwide to share information, affiliate themselves with others who share similar interests and conduct business electronically. The Internet has created new opportunities for conducting commerce that offers the potential for organizations to streamline complex processes, lower costs and improve productivity.

Technology solutions frequently automate or otherwise improve workflows or processes that are fundamental to a business' operations by replacing various paper-based transactions with electronic communications. Technology solutions that offer improved efficiency through the automation of business processes and workflows are being developed for a variety of industries.

THE INDUSTRIES WE SERVE

Marex currently serves strategic subsets of the OEM, dealer and retail markets within the U.S. marine industry. During March of 2002, we commenced efforts to serve the U.S. transportation industry relative to logistics and telemetry/tracking solutions for cargo and container shipments via truck or other mode. We believe our core products offer these markets the opportunity to gain greater efficiencies as well as potential cost savings through the implementation of Marex's core products which allow for delivery and transmission of electronic data; the ability to track, monitor, or search for particular corporate assets in remote locations, which includes, but is not limited to the use of the Internet; and the ability to operate both front and back office functionality at a retail or dealer level through the use of our business critical applications which include the implementation of our management information systems software modules.

OPPORTUNITY FOR TECHNOLOGY SOLUTIONS FOR THE MARINE AND TRANSPORTATION INDUSTRIES

We believe that the fragmentation and complexities of the marine and transportation industries create a need for technology solutions that seamlessly link suppliers and buyers, enable reliable storage and efficient retrieval of

Edgar Filing: MAREX COM INC - Form 10-K

management information, and allow for dependable asset tracking. To effectively address the needs of the industries we serve, solutions must be cost-effective, easily implemented, and easy to use.

BUSINESS STRATEGY

Our objective is to expand our position as a software products and technology services company in the industries that we serve. The key components of our strategy to achieve this objective include:

FOCUS OUR EFFORTS ON OUR TELEMETRY AND MANAGEMENT INFORMATION SOLUTIONS

We have shifted our focus from our electronic commerce solutions to our Telemetry Solution. Our electronic commerce solutions provide the platform for our Telemetry Solution. We also intend to maintain our focus on our management information solutions.

BUILD THE MAREX BRAND TO BECOME SYNONYMOUS WITH TECHNOLOGY SOLUTIONS IN THE INDUSTRIES WE SERVE

We intend to continue our brand development strategy through targeted marketing venues which may include advertising and promotions, our direct sales force, press coverage and participation in trade associations and industry events to continue to develop industry awareness of our solutions.

2

INCREASE ADOPTION OF OUR CORE PRODUCTS

We intend to aggressively increase the base of members using our Telemetry Solution and DockMaster and to increase their usage by current members. We intend to continue to educate users about the benefits of our solutions and to provide training in their use, thereby accelerating adoption and use.

PRODUCT DEVELOPMENT

We intend to focus on enhancing the capabilities of all of our core products, including the possibility of seeking out strategic relationships, which could enhance the capabilities of our current and future product offerings.

COMPLETE STRATEGIC RELATIONSHIPS

We continue to form strategic relationships with industry leaders such as manufacturers, technology partners, and other companies ancillary to the industry that provide value added services.

PRODUCT SUPPORT AND DEVELOPMENT

We have dedicated a significant amount of our resources to developing, enhancing and supporting our products. Expenses related to the development of our products primarily consist of compensation for product support and development personnel, cost of outside contractors, amortization of software development costs, and general expenses associated with the support and development of our products. We incurred product support and development expenses of approximately \$5.9 million during the year ended December 31, 2001. We expect future expenses related to product support and development to decrease as we have completed development of our core products and decreased the size of our support and development staff.

BUSINESS SEGMENTS

Edgar Filing: MAREX COM INC - Form 10-K

For internal management reporting purposes, the Company currently operates two primary business segments: electronic commerce products and management information solutions software products. Electronic commerce products consist of our internally developed procurement solutions, MarExpress! and MarexPO!. Management information solution software products consist of those products obtained through the acquisition of Software Support Team on October 2, 2001. These operating segments generally follow the management organizational structure of the Company. Sales are made only to external customers in the United States of America. Sales for each primary segment for the year ended December 31, 2001 is as follows:

	MANAGEMENT INFORMATION SOLUTIONS	ELECTRONIC COMMERCE
	-----	-----
Net sales	\$ 361,420	\$ 261,311
	=====	=====

During 2001 and 2000, revenues from one customer accounted for approximately 51% and 47% of total revenues of the electronic commerce operating segment.

INTELLECTUAL PROPERTY

We regard obtaining protection of our copyrights, service marks, trademarks, trade dress and trade secrets as important to our future success and intend to rely on a combination of copyright, trademark, service mark and trade secret laws and contractual restrictions to establish and protect our proprietary rights in products and services. While we plan to pursue the registration of our trademarks and service marks in the U.S. and internationally, effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are made available online.

3

We have entered into confidentiality agreements with our employees and certain vendors in order to limit access to and disclosure of our proprietary information. There can be no assurance that these contractual arrangements or the other steps taken by us to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or to deter independent third-party development of similar technologies.

To date, we have not been notified that our technologies infringe the proprietary rights of third parties, but there can be no assurance that third parties will not claim infringement by us with respect to past, current or future technologies. We expect that participants in our markets will be increasingly subject to infringement claims as the number of services and competitors in our industry segment grows. Any such claim, whether meritorious or not, could be time-consuming, result in costly litigation, cause service upgrade delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements might not be available on terms acceptable to us or at all. As a result, any such claim could have a material adverse effect on our business, results of operations and financial condition.

SOFTWARE DEVELOPMENT

We have developed proprietary software for our internal needs and our e-commerce, telemetry and management information solution products. To date, we

Edgar Filing: MAREX COM INC - Form 10-K

have developed several internal proprietary software programs that include a full suite of administrative, data collections, sorting, and marketing management tools. All of these programs are maintained in-house. We have also developed proprietary electronic commerce and management information software programs.

COMPETITION

The market for software products and technology services is rapidly evolving. We perceive existing competition to be pervasive and expect it to increase in the future. We believe that the critical success factors for companies seeking to create e-commerce and management information solutions include the following: brand recognition; quality and reliability of the solutions; breadth and depth of product offerings; base of customers; domain expertise; and ease of use and convenience. We may face competition from other companies with e-commerce and management information offerings, and traditional suppliers and distributors in the industries we serve that have developed their own purchasing solutions. We may also face further competition in the future from traditional suppliers and distributors that enter into e-commerce and management information markets either on their own or by partnering with other companies. In addition, we may face competition from current online business to consumer companies.

GOVERNMENT REGULATION

Due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, freedom of expression, pricing, content and quality of products and services, taxation, advertising, intellectual property rights and information security. The nature of such legislation and the manner in which it may be interpreted and enforced cannot be fully determined and, therefore, legislation could be enacted which could subject us and/or our customers to potential liability, which in turn could have an adverse effect on our business, results of operations and financial condition. The adoption of any such laws or regulations might also decrease the rate of growth of Internet use, which in turn could decrease the demand for our services or increase the cost of doing business or in some other manner have a material adverse effect on our business, results of operations and financial condition. In addition, applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy is uncertain. The vast majority of such laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies.

4

Several states have also proposed legislation that would limit the uses of personal user information gathered online or require online services to establish privacy policies. Changes to existing laws, or the passage of new laws intended to address these issues, could create uncertainty in the marketplace that could reduce demand for our services or increase the cost of doing business as a result of litigation costs or increased service delivery costs, or could in some other manner have a material adverse effect on our business, results of operations and financial condition. In addition, because our services are accessible worldwide, and we facilitate sales of goods to users worldwide, other jurisdictions may claim that we are required to qualify to do business as a foreign corporation in a particular state or foreign country. We are currently only qualified to do business in the State of Florida and Australia, and our failure to qualify as a foreign corporation in a jurisdiction where it is required to do so could subject us to taxes and penalties for the failure to

Edgar Filing: MAREX COM INC - Form 10-K

qualify and could result in our inability to enforce contracts in such jurisdictions. Any such new legislation or regulation, or the application of laws or regulations from jurisdictions whose laws do not currently apply to our business, could have a material adverse effect on our business, results of operations and financial condition.

EMPLOYEES

As of March 22, 2002, we had 36 full-time employees. None of our employees is represented by a collective bargaining agreement, nor have we experienced any work stoppages.

RISK FACTORS

The following risk factors, together with all information in this Form 10-K, should be carefully considered in evaluating Marex and its business. Due to the significant impact that the risk factors set forth below may have on Marex's business, results of operations and financial condition, actual results could differ materially from those expressed or implied by any forward-looking statement.

WE HAVE A LIMITED OPERATING HISTORY

Marex was founded in 1992 but did not launch its main products until June 2000, which were replaced by new products launched in 2001 and will be replaced by products launched in 2002. Thus we have a limited operating history on which to base an evaluation of our software business and prospects. Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets such as software development. There can be no assurance that we will be able to address these risks.

WE HAVE A HISTORY OF LOSSES

We have incurred losses from operations in each period since our inception. The Company has incurred losses of \$19.6 million, \$43.4 million and \$3.7 million for the years ended December 31, 2001, 2000 and 1999, respectively. We expect to incur substantial operating losses and have continued negative cash flows from operations for the foreseeable future. Moreover, we expect to incur significant sales and marketing, product support and development, and general and administrative expenses. In addition, we have no material revenues to date. If our revenue does not increase substantially or if our expenses are more than we expect, we may not become profitable.

IF WE FAIL TO ACHIEVE MARKET ACCEPTANCE, OUR BUSINESS WOULD BE ADVERSELY AFFECTED

The MarConnect Suite replaced MarExpress! and MarexPO! during the first quarter of 2002. We are currently commencing the marketing of orders for the Telemetry Solution. Accordingly, our core solutions have a limited market history. If the MarConnect Suite and the Telemetry Solution do not achieve market acceptance, our business will be adversely affected.

WE FACE INTENSE COMPETITION

We perceive competition to be pervasive and we expect it to increase in the

Edgar Filing: MAREX COM INC - Form 10-K

future. We may face competition from other companies with e-commerce or management information offerings as well as traditional suppliers and distributors in industries we serve and companies that have or may develop their own online solutions. In addition, providers of online marketplaces and online auction services that currently focus on other industries may expand their services to include products from industries that we currently target. Our competitors and potential competitors may develop superior solutions that achieve greater market acceptance than the Marex solutions. In addition, substantially all of our prospective customers have established long-standing relationships with some competitors and potential competitors. We cannot be certain that we can compete successfully.

OUR SOLUTIONS AND SERVICES ARE NEW AND FACE RAPID TECHNOLOGICAL CHANGES

The market for the Marex solutions is characterized by rapid technological advances, evolving standards in the software markets, changes in customer requirements, and frequent new product and service introductions and enhancements. As a result, we believe that our future success depends upon our ability to enhance current solutions. If we do not adequately respond to the need to enhance our solutions or services, then our business will be negatively affected.

WE WILL NEED TO MANAGE OUR EXPANDING BUSINESS

Our growth has placed, and is expected to continue to place, a significant demand on our sales, marketing, managerial, operational, information technology and other resources. If we cannot manage our growth effectively, our business will be adversely affected. Our current information systems, procedures and controls may not support expanded operations and may hinder our ability to take advantage of the markets for e-commerce, telemetry and management information solutions to the industries we serve.

WE DEPEND ON A MAJOR CUSTOMER

We had an agreement with one of the largest manufacturers of powerboats in the world for the utilization of our e-procurement solution, which was our largest customer. This customer accounted for 21% of our total revenue for the year ended 2001. During 2001, the agreement was terminated. Since we have shifted our strategic focus from e-commerce solutions to our telemetry and management information solutions, we do not expect revenues from our e-procurement solutions to be a significant part of our future gross revenues.

WE DEPEND ON KEY PERSONNEL

Our performance is substantially dependent on the performance of the executive officers and other key employees. Failure to successfully manage personnel requirements would have a negative effect on the business. We have experienced difficulty from time to time in hiring the personnel necessary to support the growth of our business, and we may experience similar difficulty in hiring and retaining personnel in the future. Competition for senior management, experienced sales and marketing personnel, software developers, and other employees is intense, and we cannot be certain that we will be successful in attracting and retaining personnel. The loss of the services of any executive officers or key employees could have a negative effect on the business. Failure to obtain or retain the services of necessary executive officers or key employees may not support existing or expanded operations, and may hinder our ability to take advantage of the market for e-commerce purchasing solutions to the industries we serve.

WE EXPECT THE PRICE OF OUR COMMON STOCK TO BE VOLATILE

The market price of our Common Stock may fluctuate significantly in response to

Edgar Filing: MAREX COM INC - Form 10-K

a number of factors, some of which are beyond our control, including the following: Marex common stock is thinly traded;

6

quarterly variations in operating results; changes in market valuation of Internet commerce companies; announcements of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments; loss of a major customer or strategic partner, or failure to complete a sale to a significant customer; additions or departures of any key personnel; future sales of our Common Stock; and stock market price and volume fluctuations, which are particularly common among highly volatile securities of Internet companies.

SECURITY PROBLEMS MAY INHIBIT THE GROWTH OF OUR SOLUTIONS

A significant barrier to the adoption of technology solutions is the secure transmission of confidential information over public networks. Users generally are concerned with security and privacy on the Internet and any publicized security problems could inhibit the growth of the Internet, and therefore inhibit the Marex solutions as means of conducting transactions. If there is a breach in our security system, we may be required to make significant expenditures to protect against security breaches and to alleviate problems caused by such breaches.

SYSTEM FAILURE MAY CAUSE INTERRUPTION OF SERVICES

The performance of our server and networking hardware and software infrastructure is critical to our business and reputation, and affects our ability to process transactions, provide high quality customer service and attract and retain customers, suppliers, users and strategic partners. Currently, the infrastructure and systems are located at one site in Atlanta, Georgia. We are in the process of adding a back-up and recovery site at our headquarters in Miami, Florida. Until then, we depend on single-site infrastructure. Any disruption to this infrastructure resulting from a natural disaster or other event could result in an interruption in service, fewer transactions and, if sustained or repeated, could impair our reputation and the attractiveness of the services.

WE MAY REQUIRE ADDITIONAL CAPITAL FOR OPERATIONS, WHICH COULD HAVE A NEGATIVE EFFECT ON YOUR INVESTMENT

We currently anticipate that our available funds will be sufficient to meet our projected working capital and operating resource requirements through the next 12 months since we have significantly decreased our staff and shifted our focus from our electronic commerce solutions to our telemetry and management information solutions. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. The Company is in process of launching new product offerings which may or may not be successful. The Company's cash requirements may be substantial and may exceed the amount of the Company's existing working capital. If current cash and cash equivalents, and cash that may be generated from operations are not sufficient to satisfy our liquidity requirements, we will likely seek to sell additional equity or debt securities. If we raise additional funds through the issuance of equity or convertible securities, such securities may have rights, preferences or privileges senior to those of the rights of our Common Stock. Furthermore, in the event that we issue or sell Common Stock or securities convertible for Common Stock, at a price per share less than the conversion price of the outstanding Series A1 Preferred Stock, the holders of the Series A1 Preferred Stock have the right to amend the conversion price of the price per share of the issuance. As a result, our stockholders may experience significant additional dilution. We cannot be certain that additional capital will be available to us

Edgar Filing: MAREX COM INC - Form 10-K

on acceptable terms or at all. These matters raise substantial doubt and the Company's ability to continue as a going concern.

A PROLONGED ECONOMIC DOWNTURN WOULD ADVERSELY AFFECT OUR OPERATIONS AND FINANCIAL CONDITION

Although we have not operated during a period of prolonged general economic downturn or a recession, these events have historically resulted in unfavorable results for corporate entities. The United States economy is currently undergoing a difficult period, which some observers might view as a recession. This economic condition has been worsened by the September 11th terrorist attacks in New York City and Washington, D.C. A continued economic downturn would have a significant adverse impact on our operations and our financial condition.

7

WE DEPEND ON INTELLECTUAL PROPERTY RIGHTS

Our intellectual property is important to us. We seek to protect intellectual property through copyrights, trademarks, trade secrets, confidentiality provisions in customer, supplier and strategic relationship agreements, and nondisclosure agreements with third parties, employees and contractors. We cannot assure that measures we take to protect intellectual property will be successful or that third parties will not develop alternative purchasing solutions that do not infringe upon our intellectual property. In addition, we could be subject to intellectual property infringement claims by others. Failure to protect against misappropriation of intellectual property, or claims that we are infringing the intellectual property of third parties could have a negative effect on our business.

SEASONALITY

Our business may be considered to be seasonal due to the impact of the buying and selling patterns of the members of the marine industry. We believe that the second and third quarters are the peak periods for the recreational marine industry. In addition, the recreational marine industry is highly cyclical and is highly affected by several factors. Some of those factors are: (i) economic conditions, (ii) consumer confidence levels, and (iii) weather conditions.

ITEM 2. PROPERTIES

During 2001, we relocated our offices to a 32,459 square feet facility in Miami, FL. Our lease for this facility expires October 31, 2003. We also have under lease our former offices located in Miami, FL that occupy 7,592 square feet and expires June 30, 2004. As part of the relocation, we have sublet 2,311 square feet of the former facility and a portion of the new facility to a third party. Software Support Team currently has offices in a 4,635 square feet facility in West Palm Beach, FL.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in only ordinary, routine litigation and claims incidental to its business. Although the outcome of such matters cannot be predicted with certainty and some of these matters may be disposed of unfavorably to the Company, based on currently available information, the Company does not believe that such legal matters will have a material adverse effect on its consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Edgar Filing: MAREX COM INC - Form 10-K

Not applicable.

8

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the Nasdaq National Market under the symbol "MRXX". The following table sets forth the high and low sale prices for our Common Stock for the periods indicated.

	HIGH	LOW
	----	---
2000		
First Quarter	\$ 41.75	\$ 8.88
Second Quarter	30.00	11.50
Third Quarter	20.00	10.00
Fourth Quarter	14.50	1.13
2001		
First Quarter	\$ 3.00	\$ 1.19
Second Quarter	2.45	1.17
Third Quarter	1.41	0.50
Fourth Quarter	0.82	0.18

As of March 31, 2002, there were approximately 156 holders of record of our Common Stock, of which 7,635,848 shares were issued and outstanding. The closing sale price for the Common Stock on March 31, 2002 was \$.20 per share.

We have never paid cash dividends on our Common Stock. We intend to retain future earnings, if any, to finance the expansion of our business and do not anticipate that any cash dividends will be paid in the foreseeable future. The future dividend policy will depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors.

PRIVATE PLACEMENTS OF PREFERRED STOCK

In March 2000, we received net proceeds of \$20.4 million in connection with the sale of 210,000 shares of Series A1 Preferred Stock at \$100 per share. In May 2000, we completed the private placement through the sale of an additional 210,000 shares of Series A1 Preferred Stock at \$100 per share. Total net proceeds from the private placement were \$40.9 million. The shares of Series A1 Preferred Stock were sold pursuant to Rule 506 of Regulation D of the Securities Exchange Act of 1933.

Each share of the Series A1 Preferred Stock is convertible into 7.69 shares of Common Stock at the option of the holder at any time. In the event that we issue or sell Common Stock or securities convertible or exchangeable for Common Stock, subject to certain exclusions, at a price per share less than the conversion price of the outstanding Series A1 Preferred Stock, the holders of the Series A1 Preferred Stock shall have the right to amend the conversion price of the Series A1 Preferred Stock outstanding to the price per share of the

Edgar Filing: MAREX COM INC - Form 10-K

issuance. Automatic conversion occurs upon either of the following: completion by the Company of a public offering which raises gross proceeds of at least \$50 million, at an effective price per share to the public of at least \$26.00 as adjusted for stock splits, stock dividends or other similar transactions; or, upon the event that the market price per share of the Company's Common Stock exceeds \$26.00, subject to adjustments for stock splits, stock dividends, or other similar transactions, for a consecutive twenty day period following the one-year anniversary of the effective date of a registration statement covering the Common Stock underlying the Series A1 Preferred Stock.

PRIVATE PLACEMENTS OF COMMON STOCK

In 1999, we raised \$6.9 million from the sale of 1,122,047 shares of Common Stock and after deducting \$872,000 in commissions and \$31,000 in other costs related to the financing. The shares were primarily

9

sold to overseas investors and were issued pursuant to Rule 505 and 506 of Regulation D of the Securities Exchange Act of 1933.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this Form 10-K. The selected financial data of Marex as of and for each of the five years in the period ended December 31, 2001 have been derived from Marex's audited consolidated financial statements.

	YEAR ENDED DECEMBER 31,			
	2001	2000	1999	1998
STATEMENT OF OPERATIONS DATA:				
Net sales	\$ 622,731	\$ 39,487	\$ 7,277	\$ 8,277
Costs and expenses:				
Cost of product sales	102,926	--	--	--
Product support and development	5,893,133	9,434,782	1,132,179	1,132,179
Selling and marketing	3,471,697	7,479,601	1,137,554	1,137,554
General and administrative	3,093,931	5,326,858	1,244,727	1,244,727
Impairment of software development costs	5,864,613	--	--	--
Stock-based compensation	476,140	847,919	--	--
Fair value of warrants	1,764,402	21,746,581	140,300	--
Total costs and expenses	20,666,842	44,835,741	3,654,760	3,654,760
Loss from operations	(20,044,111)	(44,796,254)	(3,647,483)	(3,647,483)
Other income (expense):				
Interest income	472,261	1,366,189	106,411	106,411
Interest expense	(55,675)	(13,298)	(6,909)	(6,909)
Other	(237)	(2,938)	(1,406)	(1,406)

Edgar Filing: MAREX COM INC - Form 10-K

Total other income (expense)	416,349	1,349,953	98,096	(4
Loss from continuing operations	(19,627,762)	(43,446,301)	(3,549,387)	(32
Discontinued operations:				
Loss from discontinued operations	--	--	(100,167)	(82
Loss on disposal, including \$11,869 for operating losses during the phase out period	--	--	(40,200)	
Total discontinued operations	--	--	(140,367)	(82
Net loss	\$ (19,627,762)	\$ (43,446,301)	\$ (3,689,754)	\$ (1,15
Net loss per share, basic and diluted:				
Continuing operations	\$ (2.67)	\$ (6.39)	\$ (0.62)	\$
Discontinued operations	--	--	(0.03)	
Net loss	\$ (2.67)	\$ (6.39)	\$ (0.65)	\$
Basic and diluted weighted average shares of Common Stock outstanding	7,344,075	6,798,813	5,700,306	4,75

10

	DECEMBER 31,			
	2001	2000	1999	1998
BALANCE SHEET DATA:				
Cash and equivalents	\$ 4,479,095	\$ 19,624,266	\$ 3,434,036	\$ 350,0
Working capital (deficit)	3,038,448	13,031,082	2,922,218	13,8
Total assets	9,661,937	31,471,681	4,315,458	596,5
Long-term liabilities	817,460	217,306	6,734	28,6
Accumulated deficit	(68,964,006)	(49,336,244)	(5,889,943)	(2,200,1
Total shareholders' equity (deficit)	6,542,120	23,927,940	3,704,104	222,0

11

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, WHICH ARE INCLUDED ELSEWHERE IN THIS FORM 10-K. IT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH RELATE TO SUCH MATTERS AS ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, TECHNOLOGICAL DEVELOPMENTS, AND SIMILAR

Edgar Filing: MAREX COM INC - Form 10-K

MATTERS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE, OR ACHIEVEMENTS OF THE COMPANY TO BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. FACTORS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED ELSEWHERE IN THIS REPORT IN THE SECTION ENTITLED "RISK FACTORS" AND THE RISKS DISCUSSED IN OUR OTHER SECURITIES AND EXCHANGE COMMISSION FILINGS.

OVERVIEW

Marex, Inc. (the "Company" or "Marex") is a software products and technology services company offering high end technology solutions to businesses. Our mission is to improve the efficiency of our customers' technology initiatives. We are currently serving the marine and transportation industries.

The Company has available for the markets it serves three products which include: an e-commerce solution which enables the electronic exchange of business documents and product information; a management information solution which provides a front and back office solution for a retail or dealer store environment; and a telemetry product which is capable of tracking assets from a remote location over the Internet.

Marex has developed a line of client server applications under the name of MarConnect Enterprise, Standard and Advisor ("MarConnect Suite"), which enable the electronic exchange of business documents including the promotion of new product information and advisories. The MarConnect offerings include support for EDI, XML and flat file formats and do not require additional hardware, staff or specialized training. MarConnect Standard and Enterprise were launched during January of 2002, whereas MarConnect Advisor was launched during February of 2002.

The MarConnect Suite replaced MarExpress! and MarexPO!. MarExpress! and MarexPO! provided marine industry buyers and suppliers with an e-procurement solution for the purchase and sale of new parts, supplies, components and equipment through a web-based transaction system. Prior to the launch of MarExpress! and MarexPO!, our Internet based trading exchange, the Exchange, and its successor, Classified and Auctions, were the only products offered to the marine industry. We suspended the Classifieds and Auctions product in the first quarter of 2001.

In October 2001, we completed the acquisition of 100% of the outstanding stock of Software Support Team, Inc. ("Software Support Team"), which is engaged in the business of developing management information solution software for retailers, distributors and dealers. Software Support Team's current product, DockMaster, offers comprehensive business functions to the marine industry through a series of integrated software modules.

The Company has developed a comprehensive telemetry solution (the "Telemetry Solution") for the marine industry and is currently marketing this same technology for the transportation industry, as well as others. The Telemetry Solution enables the remote tracking of assets from virtually any location in the world via the Internet by using our MarConnect Suite. Marex has shifted its business strategy from the MarConnect Suite to the Telemetry Solution. A final working prototype has been completed and the marketing of orders commenced during the last week of March 2002.

CRITICAL ACCOUNTING POLICIES

Edgar Filing: MAREX COM INC - Form 10-K

Marex's discussion and analysis of its financial condition and results of operations are based upon Marex's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Marex to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Marex bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of this Form 10-K. We believe our most critical accounting policies include software and website development costs and revenue recognition.

Marex follows Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and Emerging Issues Task Force Issue No. 00-02, "Accounting for Web Site Development Costs," for the accounting of development costs. Marex evaluates software and website development costs for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

The Company follows SOP 97-2, "Software Revenue Recognition," which requires companies to defer revenue and profit recognition if certain required criteria of a sale are not met. In addition, SOP 97-2 requires that revenue recognized from software arrangements is to be allocated to each element of the arrangement based on the relative fair values of the elements, such as software products, upgrades, enhancements, post contract customer support, installation, or training. The Company licenses software under noncancellable license agreements.

DockMaster, the Company's core management information solutions product acquired during 2001, generates revenues from the licensing of software modules, customer support contracts, training, custom programming, and hardware sales. Licensing and related hardware and service revenues are recognized on a subscription basis over the term of the related customer support contract, which is typically one year. Customer support contracts are billed on a monthly or quarterly basis and revenue is recognized during the month of support.

MarExpress! and MarexPO!, Marex's former core products, generated revenues by charging a transaction fee which was based on the gross transaction price of items purchased and sold through the system. The fee was recognized as revenue when the customers' right to receive a refund for the transaction fee expired. Classifieds and Auctions, which supplemented MarExpress! and MarexPO!, generated revenues by charging listing and transaction fees.

DISCONTINUED OPERATIONS

In 1999, we discontinued the operations of our non-core business subsidiary, Sovereign Financial Information Services, Inc. ("Sovereign"), in order to focus our business towards our Internet-based services and products for the marine industry. The financial information in "Management's Discussion and Analysis of

Edgar Filing: MAREX COM INC - Form 10-K

Financial Condition and Results of Operations" refers to our continuing operations and excludes the operations of Sovereign.

13

RESULTS OF OPERATIONS

COMPARISON OF YEARS ENDED DECEMBER 31, 2001 AND 2000

REVENUES

For the year ended December 31, 2001, we recorded revenues of \$623,000 compared to \$39,000 for the year ended December 31, 2000. The increase was primarily due to greater transaction fees from MarExpress! and MarexPO! in 2001 and revenue from Software Support Team acquired in October 2001.

MarExpress! and MarexPO! generated revenues by charging a transaction fee based on the gross transaction price of items purchased and sold through the system or a monthly subscription fee. These products were discontinued during the fourth quarter of 2001. The fees were recognized as revenue when customers' right to receive a refund expired. For the year ended December 31, 2001, we recorded revenues of \$261,000 from MarExpress! and MarexPO! compared to \$34,000 for the year ended December 31, 2000.

We launched our MarConnect Suite during the first quarter of 2002 as a successor to MarExpress! and MarexPO!. We did not recognize any revenue from the MarConnect Suite in 2001 as it was offered to customers on a trial basis. We do not expect significant future revenue directly from the sale of the MarConnect Suite as it will be used primarily for our Telemetry Solution.

Software Support Team generated revenues of \$361,000 during the period from the acquisition date on October 2, 2001 through December 31, 2001. Software Support Team revenues were primarily comprised of \$135,000 in DockMaster software and hardware sales and \$152,000 in related support. The balance was primarily comprised of income from other software, hardware and seminars.

Classifieds and Auctions generated revenues by charging listing and transaction fees. For the year ended December 31, 2000, we recorded revenues of \$6,000 generated from \$114,000 of transactions through the Exchange and Classifieds and Auctions. Classifieds and Auctions was discontinued in during the first quarter of 2001.

We expect future revenues to consist primarily of sales from DockMaster and our Telemetry Solution.

PRODUCT SUPPORT AND DEVELOPMENT

Product support and development expenses consist primarily of compensation for product support and development personnel, cost of outside contractors, amortization of software development costs, and other costs associated with the operations and enhancements of the web site. Product support and development expenses decreased to \$5.9 million for the year ended December 31, 2001, compared to \$9.4 million for the same period in 2000. The change related primarily to decreases of \$328,000 in personnel and personnel related costs and \$3.5 million in outside contractor costs. The decreases were partially offset by an increase of \$425,000 in amortization of software development costs. The balance was comprised of overhead and operating costs directly associated with the development, support and maintenance of the web site and e-commerce

Edgar Filing: MAREX COM INC - Form 10-K

products. We expect future expenses related to product support and development to decrease as we have completed development of our core products and decreased the size of our support and development staff.

SELLING AND MARKETING

Selling and marketing expenses consist primarily of compensation for sales and marketing personnel, cost of outside contractors, advertising, trade shows and related marketing costs. Selling and marketing expenses decreased to \$3.5 million for the year ended December 31, 2001, compared to \$7.5 million for the year ended December 31, 2000. The change was primarily due to decreases of \$1.1 million in personnel and personnel related costs, \$1.5 million in advertising and marketing costs, and \$899,000 in outside contractor costs. The balance was comprised of overhead and operating costs directly associated

14

with selling and marketing activities. We expect future selling and marketing expenses to decrease as we will perform fewer advertising and marketing activities as we believe our target markets are aware of our brand and we have decreased the size of our sales and marketing staff.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of compensation for administrative personnel, facilities expenses, professional fees, and general corporate expenses. General and administrative expenses decreased to \$3.1 million for the year ended December 31, 2001, compared to \$5.3 million for the same period in 2000. The change related primarily to decreases of \$1.0 million in personnel and personnel related costs and \$858,000 in professional fees. Professional fees in 2001 included \$25,000 for strategic business consulting services provided by a consultant who is also a shareholder, compared to \$435,000 for the year ended December 31, 2000. The balance was comprised of corporate charges directly associated with the administrative functions of our Company. We expect future general and administrative expenses to decrease as we have decreased our general and administrative staff.

IMPAIRMENT OF SOFTWARE DEVELOPMENT COSTS

Impairment of software development costs of \$5.9 million was recognized for the year ended December 31, 2001. The development of our new products, the MarConnect Suite, which replaced MarExpress! and MarexPO!, led to the recognition of \$6.7 million of impairment of software development costs. The impairment was offset by the favorable settlement of a litigation matter with a consultant in the amount of \$815,000.

STOCK-BASED COMPENSATION

For the year ended December 31, 2001, we recognized non-cash compensation expense of \$476,000 relating to options granted to a director, compared to \$848,000 for the year ended December 31, 2000.

FAIR VALUE OF WARRANTS

For the year ended December 31, 2001, we recognized an expense of \$1.8 million relating to the fair value of warrants issued in connection with a strategic relationship agreement, compared to \$21.7 million recorded for the year ended December 31, 2000.

OTHER INCOME AND EXPENSE

Edgar Filing: MAREX COM INC - Form 10-K

We recognized \$472,000 of interest income for the year ended December 31, 2001, compared to \$1.4 million for the year ended December 31, 2000. The decrease was a result of lower balances of marketable securities derived from the net proceeds of our private placements. Interest expense for the year ended December 31, 2001 was \$56,000, compared to \$13,000 for the year ended December 31, 2000. The increase was primarily due to the increase in capital lease obligations and the seller-financed note payable related to the acquisition of Software Support Team.

LOSS FROM CONTINUING OPERATIONS

Our loss from continuing operations decreased to \$19.6 million for the year ended December 31, 2001, from \$43.4 million for the year ended December 31, 2000. The change resulted from decreases in the fair value of warrants issued and decreases in costs, which were partially offset by the impairment of software development costs, as described above.

15

COMPARISON OF YEARS ENDED DECEMBER 31, 2000 AND 1999

REVENUES

For the year ended December 31, 2000, we recorded revenues of \$39,000, compared to \$7,000 for the year ended December 31, 1999. The increase was primarily due to the launch of MarExpress! and MarexPO! in June 2000.

For the year ended December 31, 2000, MarExpress! and MarexPO! generated revenues of \$34,000 from \$1.9 million of transactions. MarExpress! and MarexPO! were not launched until June 2000, therefore no revenue was recognized from these products during 1999.

For the year ended December 31, 2000, Classifieds and Auctions and the Exchange generated revenues of \$6,000 generated from \$114,000 of transactions. For the same period in 1999, we recorded revenues of \$7,000 generated from \$194,000 of transactions. The decrease resulted primarily from the decreased use of Classifieds and Auctions by our customers during the year due to Classifieds and Auctions becoming a supplement to MarExpress! and MarexPO!.

PRODUCT SUPPORT AND DEVELOPMENT

Product support and development expenses consist primarily of compensation for product support and development personnel, cost of outside contractors, amortization of software development costs, and other costs associated with the operations and enhancements of the web site. Product development expenses increased to \$9.4 million for the year ended December 31, 2000, compared to \$1.1 million for the year ended December 31, 1999. The change related primarily to increases of \$1.7 million in personnel and personnel related costs, \$3.8 million in outside contractor costs and \$1.4 million in amortization of software development costs. The balance was comprised of overhead and operating costs directly associated with the development, support and maintenance of the web site and e-commerce products.

SELLING AND MARKETING

Selling and marketing expenses consist primarily of compensation for sales and marketing personnel, cost of outside contractors, advertising, trade shows and related marketing costs. Selling and marketing expenses increased to \$7.5 million for the year ended December 31, 2000, compared to \$1.1 million for the year ended December 31, 1999. The change was primarily due to increases of \$2.6

Edgar Filing: MAREX COM INC - Form 10-K

million in personnel and personnel related costs, \$1.2 million in advertising and marketing costs, and \$1.1 million in outside contractor costs. The balance was comprised of overhead and operating costs directly associated with selling and marketing activities.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of compensation for administrative personnel, facilities expenses, professional fees, and general corporate expenses. General and administrative expenses increased to \$5.3 million for the year ended December 31, 2000, compared to \$1.2 million for the year ended December 31, 1999. The change related primarily to increases of \$1.9 million in personnel and personnel related costs and \$1.2 million in professional fees, which include \$435,000 for strategic business consulting services provided by a consultant who is also a shareholder. The balance was comprised of corporate charges directly associated with the administrative functions of our company.

STOCK-BASED COMPENSATION

For the year ended December 31, 2000, we recognized non-cash compensation expense of \$848,000 relating to options granted to a director. We did not incur any stock-based compensation expense in 1999.

16

FAIR VALUE OF WARRANTS

For the year ended December 31, 2000, we recognized an expense of \$21.7 million relating to the fair value of warrants issued in connection with a strategic relationship agreement, compared to \$140,000 recorded for the year ended December 31, 1999 relating to the fair value of warrants issued to consultants.

OTHER INCOME AND EXPENSE

We recognized \$1.4 million of interest income for the year ended December 31, 2000, compared to \$106,000 for the year ended December 31, 1999. The increase was a result of higher balances of marketable securities derived from the net proceeds of our private placements. Interest expense for the year ended December 31, 2000 was \$13,000, compared to \$7,000 for the year ended December 31, 1999. The increase was primarily due to the increase in capital lease obligations.

LOSS FROM CONTINUING OPERATIONS

Our loss from continuing operations increased to \$43.4 million for the year ended December 31, 2000, from \$3.5 million for the year ended December 31, 1999. The change resulted from the increase in costs, as described above, associated with the development and launch of our products and the charges relating to the stock based compensation and fair value of warrants.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through the private sales of Common Stock and Preferred Stock.

Net cash used in operating activities was \$12.5 million for the year ended December 31, 2001, primarily as a result of the net loss from continuing operations and a decrease of \$4.3 million in accounts payable and accrued expenses. The net loss and decrease in accounts payable and accrued expenses were partially offset by non-cash charges of \$5.9 million for the impairment of software development costs, \$1.8 million for the fair value of warrants issued,

Edgar Filing: MAREX COM INC - Form 10-K

amortization expense of \$1.9 million, depreciation expense of \$857,000, and a decrease in prepaid expenses and other current assets of \$575,000.

Net cash used in investing activities was \$2.4 million for the year ended December 31, 2001, primarily due to \$969,000 of software development costs related to the continuing development of our e-commerce solutions, \$294,000 relating to leasehold improvements, the purchase of computer and office equipment, and the purchase of furniture and fixtures, and \$672,000 related to the acquisition of Software Support Team.

Net cash used in financing activities was \$328,000 for the year ended December 31, 2001, which was primarily due to \$141,000 of principal payments on capital lease obligations and \$189,000 of principal payments related to a seller-financed note payable obtained in connection with the purchase of Software Support Team.

At December 31, 2001, cash and cash equivalents totaled \$4.5 million, while our working capital was \$3.0 million. In comparison, as of December 31, 2000, cash and cash equivalents totaled \$19.6 million, while our working capital was \$13.0 million. To date, our primary uses of cash have been in operating activities to fund the development and promotion of our e-commerce solutions.

We currently anticipate that our available funds will be sufficient to meet our projected working capital and operating resource requirements through the next 12 months since we have significantly decreased our staff and shifted our focus from our electronic commerce solutions to our telemetry and management information solutions. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. If current cash and cash equivalents, and cash that may be generated from operations are not sufficient to satisfy our liquidity requirements, we will likely seek to sell additional

17

equity or debt securities. If we raise additional funds through the issuance of equity or convertible securities, such securities may have rights, preferences or privileges senior to those of the rights of our Common Stock. Furthermore, in the event that we issue or sell Common Stock or securities convertible for Common Stock, at a price per share less than the conversion price of the outstanding Series A1 Preferred Stock, the holders of the Series A1 Preferred Stock have the right to amend the conversion price of the price per share of the issuance. As a result, our stockholders may experience significant additional dilution. We cannot be certain that additional capital will be available to us on acceptable terms or at all.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. As required, the Company adopted SFAS No. 133 in the first quarter of 2001. The adoption of this statement did not have an effect on the Company's financial position, results of operations or cash flows as it does not hold any derivative instruments.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 addresses financial accounting and reporting for business combinations and supercedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of SFAS No. 141 are to be accounted for under the purchase method. SFAS No. 141 is effective June 30, 2001. The Company elected to

Edgar Filing: MAREX COM INC - Form 10-K

adopt the provisions of SFAS 141 beginning July 1, 2001. On October 2, 2001, the Company purchased Software Support Team. The purchase was accounted for under the purchase method.

In July 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition. SFAS No. 142 also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. With the adoption of SFAS No. 142, goodwill is no longer subject to amortization. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair value-based test. The impairment loss is the amount, if any, by which the implied fair value of goodwill is less than the carrying or book value. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Impairment loss for goodwill arising from the initial application of SFAS No. 142 is to be reported as resulting from a change in accounting principle. As a result of the purchase of Software Support Team, the Company recognized goodwill in the amount of \$304,000. The Company does not believe the adoption of SFAS No. 142 will have a material effect on the Company's financial position, results of operations or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business as previously defined in that opinion. This statement also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely temporary. For purposes of this statement, impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. An impairment loss recognized for a long-lived asset to be held and used shall be included in income from continuing operations before income taxes in the income statement of a business enterprise. A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years,

18

with early application encouraged. The Company does not believe the adoption of SFAS No. 144 will have a material effect on the Company's financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hold any market risk sensitive instruments. As a result, this item is not applicable to the Company's consolidated balance sheet as of December 31, 2001.

19

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Edgar Filing: MAREX COM INC - Form 10-K

MAREX, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE

Report of Independent Certified Public Accountants	21
Consolidated Balance Sheets as of December 31, 2001 and 2000	22
Consolidated Statements of Operations For the Years Ended December 31, 2001, 2000 and 1999	23
Consolidated Statements of Shareholders' Equity For the Years Ended December 31, 2001, 2000 and 1999	24
Consolidated Statements of Cash Flows For the Years Ended December 31, 2001, 2000 and 1999	25
Notes to Consolidated Financial Statements	27

20

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To Marex, Inc.:

We have audited the accompanying consolidated balance sheets of Marex, Inc., (a Florida Corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marex, Inc. and Subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the

Edgar Filing: MAREX COM INC - Form 10-K

consolidated financial statements, the Company incurred net losses during each of the three years in the period ended December 31, 2001 and has an accumulated deficit of \$68,964,006. The Company is in process of launching new product offerings which may or may not be successful. The Company's cash requirements may be substantial and may exceed the amount of the Company's existing working capital. In order to fund working capital needs, the Company may be required to raise capital through loans or issuance of debt or equity securities, which may not be available to the Company on acceptable terms, or at all. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Arthur Andersen LLP

Miami, Florida, February 8, 2002 (except with respect to the matter discussed in the first paragraph of Note 10, as to which the date is March 26, 2002).

21

MAREX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,479,095	\$ 19,624,266
Accounts receivable, net	275,680	18,901
Inventories	14,546	--
Prepaid expenses and other current assets	145,835	714,350
Loan to related party	425,649	--
Total current assets	5,340,805	20,357,517
Property and equipment, net	1,533,872	2,004,853
Other assets:		
Trademark, net	--	6,771
Software development costs, net	2,311,551	8,904,897
Goodwill	304,086	--
Deposits and other assets	171,623	197,643
Total other assets	2,787,260	9,109,311
Total assets	\$ 9,661,937	\$ 31,471,681

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Edgar Filing: MAREX COM INC - Form 10-K

Current portion of seller-financed note payable	\$ 684,718	\$ --
Current portion of capital lease obligations	163,775	130,481
Accounts payable and accrued expenses	1,453,864	7,195,954
	-----	-----
Total current liabilities	2,302,357	7,326,435
	-----	-----
Long-term liabilities:		
Seller-financed note payable, net of current portion ..	726,735	--
Capital lease obligations, net of current portion	90,725	217,306
	-----	-----
Total long-term liabilities	817,460	217,306
	-----	-----
Total liabilities	3,119,817	7,543,741
	-----	-----
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Series A1 Convertible Preferred Stock, par value \$.01 per share, 1,000,000 shares authorized, 301,750 and 304,693 shares issued and outstanding as of December 31, 2001 and 2000, respectively	30,175,000	30,469,300
Common Stock, par value \$.01 per share, 25,000,000 shares authorized, 7,366,617 and 7,339,780 shares issued and outstanding as of December 31, 2001 and 2000, respectively	73,666	73,398
Additional paid-in capital	45,257,460	42,721,486
Accumulated deficit	(68,964,006)	(49,336,244)
	-----	-----
Total shareholders' equity	6,542,120	23,927,940
	-----	-----
Total liabilities and shareholders' equity	\$ 9,661,937	\$ 31,471,681
	=====	=====

See Notes to Consolidated Financial Statements

22

MAREX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Net sales	\$ 622,731	\$ 39,487	\$ 7,277
	-----	-----	-----
Costs and expenses:			
Cost of product sales	102,926	--	--
Product support and development	5,893,133	9,434,782	1,132,179
Selling and marketing	3,471,697	7,479,601	1,137,554
General and administrative	3,093,931	5,326,858	1,244,727

Edgar Filing: MAREX COM INC - Form 10-K

Impairment of software development costs	5,864,613	--	--
Stock-based compensation	476,140	847,919	--
Fair value of warrants	1,764,402	21,746,581	140,300
	-----	-----	-----
Total costs and expenses	20,666,842	44,835,741	3,654,760
	-----	-----	-----
Loss from operations	(20,044,111)	(44,796,254)	(3,647,483)
	-----	-----	-----
Other income (expense):			
Interest income	472,261	1,366,189	106,411
Interest expense	(55,675)	(13,298)	(6,909)
Other	(237)	(2,938)	(1,406)
	-----	-----	-----
Total other income	416,349	1,349,953	98,096
	-----	-----	-----
Loss from continuing operations	(19,627,762)	(43,446,301)	(3,549,387)
	-----	-----	-----
Discontinued operations:			
Loss from discontinued operations	--	--	(100,167)
Loss on disposal, including \$11,869 for operating losses during the phase out period	--	--	(40,200)
	-----	-----	-----
Total discontinued operations	--	--	(140,367)
	-----	-----	-----
Net loss	\$ (19,627,762)	\$ (43,446,301)	\$ (3,689,754)
	=====	=====	=====
Net loss per share, basic and diluted:			
Continuing operations	\$ (2.67)	\$ (6.39)	\$ (0.62)
Discontinued operations	--	--	(0.03)
	-----	-----	-----
Net loss	\$ (2.67)	\$ (6.39)	\$ (0.65)
	=====	=====	=====
Basic and diluted weighted average shares of Common Stock outstanding	7,344,075	6,798,813	5,700,306
	=====	=====	=====

See Notes to Consolidated Financial Statements

23

MAREX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

PREFERRED	COMMON	ADDITIONAL PAID-IN	ACCUM
-----------	--------	-----------------------	-------

Edgar Filing: MAREX COM INC - Form 10-K

	STOCK	STOCK	CAPITAL	DEFI
	-----	-----	-----	-----
Balance, December 31, 1998 .	\$ --	\$ 49,282	\$ 2,373,000	\$ (2,20
Exercise of stock options ..	--	3,466	135,534	
Issuance of 1,122,047 shares of Common Stock	--	11,220	6,881,245	
Fair value of warrants	--	--	140,300	
Net loss	--	--	--	(3,68
Balance, December 31, 1999 .	--	63,968	9,530,079	(5,88
Exercise of stock options and warrants	--	560	174,072	
Issuance of 420,000 shares of Preferred Stock	42,000,000	--	(1,098,995)	
Conversion of Preferred Stock	(11,530,700)	8,870	11,521,830	
Fair value of warrants	--	--	21,746,581	
Stock-based compensation ...	--	--	847,919	
Net loss	--	--	--	(43,44
Balance, December 31, 2000 .	30,469,300	73,398	42,721,486	(49,33
Exercise of stock options and warrants	--	42	1,358	
Conversion of Preferred Stock	(294,300)	226	294,074	
Fair value of warrants	--	--	476,140	
Stock-based compensation ...	--	--	1,764,402	
Net loss	--	--	--	(19,62
Balance, December 31, 2001 .	\$ 30,175,000	\$ 73,666	\$ 45,257,460	\$ (68,96
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements

Edgar Filing: MAREX COM INC - Form 10-K

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DE	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from continuing operations	\$ (19,627,762)	\$ (43,440,000)
Adjustments to reconcile loss from continuing operations to net cash used in continuing operations		
Provision for doubtful accounts	8,887	
Depreciation	856,593	47,000
Amortization	1,935,640	1,550,000
Impairment of software development costs	5,864,613	
Stock-based compensation	476,140	84,000
Fair value of warrants	1,764,402	21,740,000
Loss on disposal of property and equipment	--	7,000
Increase in accounts receivable	(16,816)	(1,000)
Increase in inventories	(5,698)	
Decrease (increase) in prepaid expenses and other current assets	575,287	(64,000)
Decrease (increase) in deposits	43,219	(19,000)
(Decrease) increase in accounts payable and accrued expenses	(4,330,903)	6,590,000
Net cash used in operating activities	(12,456,398)	(13,000,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(294,205)	(1,480,000)
Acquisition of trademark	--	
Additions to software development costs	(969,081)	(10,370,000)
Acquisition of net assets of subsidiary, net of cash acquired	(671,683)	
(Increase) decrease in loan to related party	(425,649)	2,000
Net cash used in investing activities	(2,360,618)	(11,830,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from related party borrowings	--	
Principal payments on due to related party	--	
Principal payments on notes payable	(188,547)	
Principal payments on capital lease obligations	(141,008)	(4,000)
Proceeds from exercise of stock options and warrants	1,400	17,000
Proceeds from issuance of Common Stock	--	
Proceeds from issuance of Preferred Stock	--	40,900,000
Net cash (used in) provided by financing activities	(328,155)	41,020,000
Net cash (used in) provided by continuing operations	(15,145,171)	16,190,000
Net cash used in discontinued operations	--	
Net (decrease) increase in cash and cash equivalents	(15,145,171)	16,190,000
CASH AND CASH EQUIVALENTS, beginning of year	19,624,266	3,430,000
CASH AND CASH EQUIVALENTS, end of year	\$ 4,479,095	\$ 19,620,000

(Continued)

See Notes to Consolidated Financial Statements

25

MAREX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

	YEAR ENDED DE	
	2001	20
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 34,503	\$ 1
	=====	=====
SUPPLEMENTAL DISCLOSURES OF NON-CASH INFORMATION:		
Acquisition of equipment under capital lease obligations ...	\$ --	\$ 38
	=====	=====
Details of acquisition of subsidiary		
Assets acquired	\$ 2,608,109	
Liabilities assumed	(220,479)	

Net assets acquired	2,387,630	
Cash paid for acquisition, including transaction fees ..	(787,630)	

Seller-financed note payable	\$ 1,600,000	
	=====	
Net cash paid for acquisition	\$ 671,683	
Cash acquired in acquisition	115,947	

Cash paid for acquisition, including transaction fees ..	\$ 787,630	
	=====	

See Notes to Consolidated Financial Statements

26

MAREX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Marex, Inc. (the "Company" or "Marex") is a provider of software products and technology services. The Company's products provide businesses with a procurement solution that enables electronic system-to-system exchange of business documents, a product advisory service that enables companies to market and receive critical product information, a management information solutions product that offers comprehensive business functions through a series of integrated software modules, and a telemetry solution that enables remote tracking of assets from virtually any location in the world via the Internet.

The financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred losses of \$19.6 million, \$43.4 million and \$3.7 million for the years ended December 31, 2001, 2000 and 1999, respectively and has an accumulated deficit of \$68,964,006 as of December 31, 2001. The Company is in process of launching new product offerings which may or may not be successful. If current cash and cash equivalents, and cash that may be generated from operations are not sufficient to satisfy our liquidity requirements, the Company will likely seek to sell additional equity or debt securities. If the Company raises additional funds through the issuance of equity or convertible securities, such securities may have rights, preferences or privileges senior to those of the rights of the Company's Common Stock. Furthermore, in the event that the Company issues or sells Common Stock or securities convertible for Common Stock, at a price per share less than the conversion price of the outstanding Series A1 Preferred Stock, the holders of the Series A1 Preferred Stock have the right to amend the conversion price of the price per share of the issuance. As a result, the Company's shareholders may experience significant additional dilution. The Company cannot be certain that additional capital will be available on acceptable terms or at all. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Marex

Edgar Filing: MAREX COM INC - Form 10-K

and its subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents.

ACCOUNTS RECEIVABLE

The Company provides for doubtful accounts by reserving a percentage of monthly revenues as a general reserve and by specifically identifying accounts for which collection is not probable. The rollforward of the allowance for doubtful accounts is as follows:

	2001	2000
	-----	-----
Balance, beginning of year	\$ 170	\$ --
Provision	8,887	170
	-----	-----
Balance, end of year	\$ 9,057	\$ 170
	=====	=====

INVENTORIES

Inventories are stated at the lower of cost or market. Components of inventories include the costs incurred for duplicating computer software, printed material included with the sale of products, and

27

related training materials. The Company considers factors such as the amount of inventory on hand, estimated time required to sell such inventories, and current market conditions to determine whether inventories are stated at the lower of cost or market. Reserves are provided as appropriate.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or lease term as follows:

	YEARS

Computer hardware and software	3
Office equipment and furniture	5
Leasehold improvements	Life of Lease or Estimated Useful Life, if Shorter
Equipment held under capital leases	Life of Lease or Estimated Useful Life, if Shorter

TRADEMARK

Edgar Filing: MAREX COM INC - Form 10-K

The cost of the trademark acquired is being amortized using the straight-line method over two years. Amortization of trademark totaled approximately \$7,000, \$16,000 and \$9,000 for the years ended December 31, 2001, 2000 and 1999, respectively, and is included in "General and administrative" in the accompanying consolidated statements of operations. Accumulated amortization related to a trademark at December 31, 2001 and 2000 was \$32,000 and \$25,000, respectively.

SOFTWARE AND WEBSITE DEVELOPMENT COSTS

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and Emerging Issues Task Force Issue No. 00-02, "Accounting for Web Site Development Costs," for the accounting of development costs. During the years ended December 31, 2001 and 2000, the Company capitalized approximately \$969,000 and \$10.4 million, respectively, of development costs associated with development of its software products. The Company did not capitalize any development costs during the year ended December 31, 1999.

In connection with the acquisition of Software Support Team, Inc. ("Software Support Team") during the year ended December 31, 2001, the Company acquired \$1.8 million of capitalized software development costs.

During the year ended December 31, 2001, the Company recognized an impairment of software development costs in the amount of \$5.9 million resulting from the Company's decision to change its strategy and develop Marconnect Standard/Enterprise ("Standard/Enterprise") and MarConnect Advisor ("Advisor"), which replace its previous offerings of MarExpress! and MarexPO!. The impairment of software development costs was comprised of a charge in the amount of \$6.7 million, which was offset by a favorable litigation settlement in the amount of \$815,000.

Amortization of software development costs is computed using the straight-line method over the useful life of the related products ranging from two to three years. Amortization expense of software development costs totaled approximately \$1.9 million, \$1.5 million and \$18,000 for the years ended December 31, 2001, 2000 and 1999, respectively, and is included in "Product support and development" in the accompanying consolidated statements of operations. Accumulated amortization related to software development costs at December 31, 2001 and 2000 was \$300,000 and \$1.6 million, respectively.

28

LONG-LIVED ASSETS

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the year ended December 31, 2001, the Company recognized an impairment of software development costs in the amount of \$5.9 million resulting from the Company's decision to change its strategy and develop

Edgar Filing: MAREX COM INC - Form 10-K

Standard/Enterprise and Advisor, which replaced MarExpress! and MarexPO!. The impairment of software development costs was comprised of a charge in the amount of \$6.7 million, which was offset by a favorable litigation settlement in the amount of \$815,000. There were no impairment charges recorded in the years ended December 31, 2000 and 1999.

GOODWILL

Goodwill represents the excess of cost over fair value of net assets acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer subject to amortization. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. The impairment loss is the amount, if any, by which the implied fair value of goodwill is less than the carrying or book value.

As a result of the acquisition of Software Support Team, the Company recorded \$304,000 of goodwill during the year ended December 31, 2001. No impairment of goodwill was recorded during 2001.

CAPITAL LEASES

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as the acquisition of assets and assumption of obligations. Accordingly, capitalized leased assets are recorded as property and equipment and the present values of the minimum lease payments are recorded as capital lease obligations. Depreciation of such assets is computed using the shorter of the lease terms or estimated useful lives of the assets.

INCOME TAXES

The Company utilizes an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to effect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change in deferred tax assets and liabilities and the change in any valuation allowance during the year.

REVENUE RECOGNITION

The Company follows SOP 97-2, "Software Revenue Recognition," which requires companies to defer revenue and profit recognition if certain required criteria of a sale are not met. In addition, SOP 97-2 requires that revenue recognized from software arrangements is to be allocated to each element of the arrangement based on the relative fair values of the elements, such as software products, upgrades, enhancements, post contract customer support, installation, or training. The Company licenses software under noncancellable license agreements.

DockMaster, the Company's core management information solutions product acquired during 2001, generates revenues from the licensing of software modules, customer support contracts, training, custom programming, and hardware sales. Licensing and related hardware and service revenues are recognized on a subscription basis over the term of the related customer support contract, which is typically one year. Customer support contracts are billed on a monthly or quarterly basis and revenue is recognized

Edgar Filing: MAREX COM INC - Form 10-K

during the month of support. DockMaster-related revenue for the period from the acquisition date through December 31, 2001 was \$361,000.

MarExpress! and MarexPO!, the Company's former core products, generated revenues by charging a transaction fee which was based on the gross transaction price of items purchased and sold through the system or a monthly subscription fee. These products were discontinued during the fourth quarter of 2001. The fees were recognized as revenue when the customers' right to receive a refund for the transaction fees expired. Transaction and subscription fees related to these products were \$261,000 and \$34,000 in 2001 and 2000, respectively. No revenues were generated from these products in 1999 as the products were launched in June 2000.

Standard/Enterprise and Advisor, the Company's core e-commerce products, generate revenues by charging a monthly subscription fee. The subscription fee is recognized as revenue during the month that the service is provided. No revenue was recognized from Standard/Enterprise or Advisor as Standard/Enterprise was being offered to customers on a trial basis during 2001, and Advisor was not launched until after December 31, 2001.

Classifieds and Auctions, the successor of the Exchange, generated revenues by charging listing and transaction fees. Listing and transaction fees related to these products were \$6,000 and \$7,000 in 2000 and 1999, respectively. Classifieds and Auctions was suspended during the first quarter of 2001. No revenue was generated from this product in 2001.

ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expense for 2001, 2000 and 1999 was \$143,000, \$1.7 million and \$438,000, respectively.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Significant estimates include the useful lives of trademarks, software development costs and the realizability of goodwill.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value. Loan to related party and seller-financed note payable bear interest at prevailing market rates and are carried at amounts which approximate fair value.

ACCOUNTING FOR STOCK-BASED COMPENSATION

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Under APB Opinion No. 25, compensation is measured as the excess, if any, of the quoted market price of the Company's Common Stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period.

WARRANTS

Edgar Filing: MAREX COM INC - Form 10-K

As required by SFAS No. 123, the Company accounts for warrants issued to non-employees not issued in conjunction with debt by amortizing the fair value, determined by using the Black-Scholes method, of such warrants over the vesting period. The fair value of warrants issued in conjunction with debt is amortized over the life of the loan agreement as interest expense. Expense related to warrants totaled approximately \$1.8 million, \$21.7 million and \$140,000 in 2001, 2000 and 1999, respectively. See Note 9 for the factors used in determining the fair value of such warrants.

30

EARNINGS PER SHARE

SFAS No. 128, "Earnings Per Share," requires two presentations of earnings per share -- "basic" and "diluted." Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted average number of common shares (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

The following options and warrants to purchase shares of common stock were outstanding at the end of each year, but were not included in the computation of diluted earnings per share because the Company reported a net loss for all years presented and, therefore, the effect would be antidilutive:

	December 31,		
	2001	2000	1999
OPTIONS			
Outstanding	3,258,635	2,862,050	2,416,000
Weighted average exercise prices	\$ 4.10	\$ 6.20	\$ 6.20
WARRANTS			
Outstanding	409,971	1,852,052	436,000
Weighted average exercise prices	\$ 9.68	\$ 3.57	\$ 3.57

The Company had 301,750 shares of Preferred Stock outstanding as of December 31, 2001 that were convertible into 2,321,154 shares of Common Stock.

COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income is defined as the change in equity during the financial reporting period of a business enterprise resulting from non-owner sources. For 2001, 2000 and 1999, the Company had no comprehensive income items and, accordingly, comprehensive loss was the same as net loss for all periods presented.

SEGMENT REPORTING

For internal management reporting purposes, the Company currently operates two

Edgar Filing: MAREX COM INC - Form 10-K

primary business segments: electronic commerce products and management information solution software products. Electronic commerce products consist of our internally developed procurement solutions, MarExpress! and MarexPO!. Management information solution software products consist of those products obtained through the acquisition of Software Support Team on October 2, 2001. These operating segments generally follow the management organizational structure of the Company. Sales are made only to external customers in the United States of America. See Note 11 for information related to the Company's business segments.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. As required, the Company adopted SFAS No. 133 in the first quarter of 2001. The adoption of this statement did not have an effect on the Company's financial position, results of operations or cash flows as it does not hold any derivative instruments.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 addresses financial accounting and reporting for business combinations and supercedes APB Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of SFAS No. 141 are to be accounted for under the purchase method. SFAS No. 141 is effective June 30, 2001. The

31

Company elected to adopt the provisions of SFAS No. 141 beginning July 1, 2001. Accordingly, the Company's purchase of Software Support Team on October 2, 2001 was accounted for under the provisions of SFAS No. 141. The purchase was accounted for under the purchase method. In June 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition. SFAS No. 142 also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. With the adoption of SFAS No. 142, goodwill is no longer subject to amortization. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair value-based test. The impairment loss is the amount, if any, by which the implied fair value of goodwill is less than the carrying or book value. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Impairment loss for goodwill arising from the initial application of SFAS No. 142 is to be reported as resulting from a change in accounting principle. As a result of the purchase of Software Support Team, the Company recognized goodwill in the amount of \$304,000. The Company does not believe the adoption of SFAS No. 142 will have a material effect on the Company's financial position, results of operations or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business as previously defined in that opinion. This statement also amends Accounting Research Bulletin No. 51, "Consolidated

Edgar Filing: MAREX COM INC - Form 10-K

Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely temporary. For purposes of this statement, impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. An impairment loss recognized for a long-lived asset to be held and used shall be included in income from continuing operations before income taxes in the income statement of a business enterprise. A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The Company does not believe the adoption of SFAS No. 144 will have a material effect on the Company's financial position, results of operations or cash flows.

NOTE 3 - ACQUISITION

On October 2, 2001, the Company completed the acquisition of 100% of the outstanding stock of Software Support Team for \$2.4 million pursuant to the terms of a Stock Purchase Agreement dated September 21, 2001. The purchase price was based on arms' length negotiations between the Company and the sellers. Software Support Team is engaged in the business of developing management information solutions software.

The purchase price was funded with \$800,000 cash from internally available funds and \$1.6 million through a seller-financed note payable. The note payable bears an interest rate of 6% payable in equal quarterly installments and matures in October 2003.

The acquisition, completed on October 2, 2001, was accounted for as a purchase under SFAS No. 141 and, accordingly, the results of Software Support Team's operations are included in the Company's consolidated results from the date of the acquisition.

The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition:

Assets acquired	\$ 2,608,109
Liabilities assumed	(220,479)

Net assets acquired	\$ 2,387,630
	=====

32

Current and long-term assets and liabilities were recorded at their net book value, which approximated their fair value at the date of acquisition. Software development costs of \$1.8 million were determined through a valuation analysis performed by an independent third party.

The following table reflects the unaudited pro forma combined results of the Company as if the acquisition had taken place at the beginning of the periods presented:

	Year Ended December 31,	
	2001	2000
	-----	-----
Net sales	\$ 2,425,540	\$ 2,938,505
Net loss	\$ (19,505,838)	\$ (43,082,119)
Net loss per share	\$ (2.66)	\$ (6.34)

Edgar Filing: MAREX COM INC - Form 10-K

The unaudited pro forma results have been prepared for comparison purposes only. The unaudited pro forma combined results do not purport to represent what our actual results of operations would have been had the acquisition occurred as of the beginning of the periods presented and may not be indicative of our future results of operations.

NOTE 4 - DISCONTINUED OPERATIONS

On August 24, 1999, the Company's Board of Directors approved a plan to discontinue the operations of its non-core business subsidiary, Sovereign Financial Information Services, Inc. ("Sovereign"), in order to focus its business towards its Internet-based e-commerce solutions for the marine industry. Sovereign was engaged in the publishing of research reports, stock handbooks and global industry guides. Sovereign ceased operations on September 30, 1999. The loss on the disposal of Sovereign totaled \$40,000, consisting of a write-down of Sovereign assets totaling \$28,000 and a provision of \$12,000 for operating losses until the date of disposal.

The accompanying consolidated statement of operations and consolidated statement of cash flows have been reclassified to report separately the discontinued operations in the prior periods. Selected results of the discontinued operations in 1999 were as follows:

Revenues	\$ --
	=====
Gross profit	\$ --
	=====
Selling, general and administrative	\$ 140,367
	=====
Net loss	\$ (140,367)
	=====

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	December 31,	
	2001	2000
	-----	-----
Computer hardware and software	\$ 1,801,410	\$ 1,690,125
Office equipment and furniture	432,563	405,735
Leasehold improvements	283,299	87,633
Equipment held under capital leases	430,386	389,077
	-----	-----
	2,947,658	2,572,570
Less accumulated depreciation	(1,413,786)	(567,717)
	-----	-----
Property and equipment, net	\$ 1,533,872	\$ 2,004,853
	=====	=====

Depreciation expense charged to operations during 2001, 2000 and 1999 was \$857,000, \$477,000, and \$71,000, respectively.

NOTE 6 - INCOME TAXES

Edgar Filing: MAREX COM INC - Form 10-K

The Company has recorded a 100% valuation allowance on its deferred tax assets due to the uncertainty of the realization of the deferred tax assets. At December 31, 2001 and 2000, the significant components of the Company's deferred tax assets are as follows:

	2001	2000
	-----	-----
Net operating loss carryforwards	\$ 16,453,213	\$ 10,192,989
Depreciation and amortization	(89,878)	448,093
Accrual to cash adjustment	23,207	23,208
Other	23,948	67
	-----	-----
Total	16,410,490	10,664,357
Less valuation allowance	(16,410,490)	(10,664,357)
	-----	-----
	\$ --	\$ --
	=====	=====

The provision for income taxes differs from the amount computed by applying the statutory federal and state income tax rates to income before income taxes. The sources and tax effects of the difference are as follows:

	2001	2000	1999
	-----	-----	-----
Expected tax benefit at 39.5%	\$ 7,752,966	\$17,161,289	\$ 1,457,452
Non-deductible expenses, primarily warrants	(2,006,832)	(8,734,130)	(52,127)
Change in valuation allowance	(5,746,134)	(8,427,159)	(1,405,325)
	-----	-----	-----
	\$ --	\$ --	\$ --
	=====	=====	=====

As of December 31, 2001, the Company's net operating loss carryforwards for income tax purposes amounted to approximately \$41.7 million and expire at various dates from 2011 through 2021.

NOTE 7 - SELLER-FINANCED NOTE PAYABLE

In October 2001, in connection with the acquisition of Software Support Team, the Company issued a note payable for \$1,600,000 to the sellers, who are currently employees of the Company. The note bears an interest rate of 6% and matures in quarterly principal and interest payments of \$188,548 through October 2003. During 2001, the Company accrued interest expense of approximately \$21,000.

NOTE 8 - CAPITAL LEASES

The Company is the lessee of certain equipment under capital leases expiring in various years through the year 2006. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset and are included in property and equipment, net. The assets are depreciated over the lesser of their estimated useful lives or the term of the lease. Depreciation of assets under capital leases is included in depreciation expense.

Minimum future lease payments under capital leases as of December 31, 2001 are as follows:

2002	\$ 181,687
------	------------

Edgar Filing: MAREX COM INC - Form 10-K

2003	72,294
2004	16,217
2005	7,430
2006	1,238

Total minimum lease payments	278,866
Less amount representing interest	(24,366)

Present value of net minimum lease payments	\$ 254,500
	=====

Interest rates on capitalized leases vary from 9.00% to 11.31% and are based on the Company's incremental borrowing rate. Interest expense on capital lease obligations during 2001, 2000 and 1999 was \$35,000, \$13,000 and \$2,000, respectively.

34

NOTE 9 - SHAREHOLDERS' EQUITY

STOCK OPTION PLAN

In January 1997, the Company approved a 1996 and 1997 Incentive Stock Option Plan (ISO). The 1996 and 1997 Incentive Stock Option Plans, as amended, provide options for 900,000 and 4,000,000 shares, respectively, to be purchased for the greater of \$.33 or the fair market value on the date of grant. In general, options have vesting terms of 4 to 5 years and expire 5 years after date of grant. Shares available for future option grants at December 31, 2001 totaled 1,236,165. As of December 31, 2001, the Company had granted options to purchase 5,721,185 shares of Common Stock to employees and Directors of the Company. The following is a summary of stock option activity during the years ended December 31, 2001, 2000 and 1999:

	Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at December 31, 1998	1,911,000	\$ 1.38
Granted	1,070,000	9.65
Exercised	(372,000)	1.06
Canceled	(193,000)	2.57

Outstanding at December 31, 1999	2,416,000	5.00
Granted	762,400	12.31
Exercised	(29,000)	4.32
Canceled	(287,350)	12.53

Outstanding at December 31, 2000	2,862,050	6.20
Granted	1,788,785	1.59
Exercised	(4,200)	0.33
Canceled	(968,000)	7.17
Expired	(420,000)	0.37

Outstanding at December 31, 2001	3,258,635	4.10
	=====	

Edgar Filing: MAREX COM INC - Form 10-K

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

Exercise Price Range	Outstanding Options			Exer Number
	Number	Weighted Average Remaining Life (Yrs.)	Weighted Average Exercise Price	
\$0.33-\$0.37	750,500	2.75	\$ 0.34	335,600
\$0.57-\$0.60	121,735	4.73	0.60	--
\$1.14	17,500	4.58	1.14	--
\$1.83-\$2.38	1,354,000	2.56	2.05	694,000
\$3.00-\$3.86	122,150	3.88	3.81	24,430
\$5.50	150,000	0.06	5.50	150,000
\$8.03-\$12.38	501,000	2.56	10.14	428,000
\$13.00-\$18.50	203,500	3.33	13.14	70,700
\$27.75-\$37.44	38,250	3.16	29.98	7,650
<u>\$0.33-\$37.44</u>	<u>3,258,635</u>	<u>2.68</u>	<u>4.10</u>	<u>1,710,380</u>

As permitted by SFAS No. 123, the Company accounts for options issued to employees under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." In 2000, the Company granted options to a Director at an exercise price below the quoted market price, which resulted in total non-cash compensation of \$2.4 million. The non-cash compensation cost is being recognized ratably over the vesting period. For the years ended December 31, 2001 and 2000, compensation expense relating to these options totaled approximately \$476,000 and \$848,000, respectively.

35

If compensation cost for options issued to employees had been determined consistent with SFAS No. 123, the Company's net loss and net loss per share would have been the pro forma amounts shown in the following table:

	2001	2000	1999
Net loss:			
As reported	\$ (19,627,762)	\$ (43,446,301)	\$ (3,689,754)
Pro forma	(22,720,510)	(45,793,724)	(4,469,977)
Net loss per share, basic and diluted:			
As reported	\$ (2.67)	\$ (6.39)	\$ (0.65)
Pro forma	(3.09)	(6.74)	(0.78)

Edgar Filing: MAREX COM INC - Form 10-K

During the year ended December 31, 2001, stock options granted were all granted at exercise prices equal to market and had a weighted average fair value of \$1.59. During the year ended December 31, 2000, the weighted average fair values of stock options granted at exercise prices below market price and at market price were \$23.82 and \$9.37, respectively.

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

Grant Date	Volatility	Risk-free Interest Rate	Expected Dividends	Expected Term (Years)
2001	100%	4.67%	0%	4
2000	100%	6.11%	0%	4
1999	80%	5.50%	0%	4

PREFERRED STOCK

The Company has authorized 1,000,000 shares of Preferred Stock of \$.01 par value with preferences to be determined by the Board of Directors. On March 2, 2000, the Board of Directors designated 430,000 shares as Series A1 Convertible Preferred Stock ("Series A1 Preferred Stock").

In March 2000, the Company received net proceeds of \$20.4 million in connection with the sale of 210,000 shares of Series A1 Preferred Stock at \$100 per share. In May 2000, the Company completed the private placement through the sale of an additional 210,000 shares of Series A1 Preferred Stock at \$100 per share. Total net proceeds from the private placement were \$40.9 million. During 2001, 2,943 shares of Series A1 Preferred Stock were converted into 22,637 shares of Common Stock. During 2000, 115,307 shares of Series A1 Preferred Stock were converted into 886,974 shares of Common Stock.

Each share of the Series A1 Preferred Stock is convertible into 7.69 shares of Common Stock at the option of the holder at any time. In the event that the Company issues or sells Common Stock or securities convertible or exchangeable for Common Stock, subject to certain exclusions, at a price per share less than the conversion price of the outstanding Series A1 Preferred Stock, the holders of the Series A1 Preferred Stock shall have the right to amend the conversion price of the Series A1 Preferred Stock outstanding to the price per share of the issuance. Automatic conversion occurs upon either of the following: completion by the Company of a public offering which raises gross proceeds of at least \$50 million, at an effective price per share to the public of at least \$26.00 as adjusted for stock splits, stock dividends or other similar transactions; or, upon the event that the market price per share of the Company's Common Stock exceeds \$26.00, subject to adjustments for stock splits, stock dividends, or other similar transactions, for a consecutive twenty day period following the one-year anniversary of the effective date of a registration statement covering the Common Stock underlying the Series A1 Preferred Stock.

The holders of the Series A1 Preferred Stock are entitled to the number of votes equal to the number of shares of Common Stock into which such Preferred Stock is convertible.

Upon declaration by the Board of Directors, holders of Series A1 Preferred Stock shall be entitled to receive dividends ratably in an amount per share equal to that which the holders would have been entitled had they converted their Series A1 Preferred Stock into shares of Common Stock.

Upon any liquidation of the Company, holders of record of the Series A1 Preferred Stock shall be entitled to receive, out of the assets of the Company and before any distribution or payment is made upon any class of security of lesser rank, an amount per share equal to the lesser of \$100 per share or the assets of the Company available for distribution to its shareholders, distributed ratably among holders of the outstanding Series A1 Preferred Stock. After the distribution to the holders of Series A1 Preferred Stock has been made, the remaining assets of the Company available for distribution to shareholders shall be distributed pro rata solely among the holders of Common Stock.

Holders may redeem shares of Series A1 Preferred Stock in the event that the Company does not honor a conversion. In such a case, the redemption amount is equal to, at the option of the holder, the market value of the Common Stock that the shares of Series A1 Preferred Stock would otherwise have been convertible into or \$100 per share.

WARRANTS

During 1997, the Company issued 6,000 warrants to two lenders as partial consideration for loans. Each warrant is convertible into one share of the Company's Common Stock and is exercisable at \$1.83 per share. The warrants expire 5 years from the effective date.

The Company has issued warrants to consultants in consideration of having acted as agents for the Company's private placements. The Company issued warrants to purchase 353,971 and 27,000 shares of Common Stock to placement agents in 1999 and 1997, respectively. The weighted average exercise price of warrants issued to placement agents in 1999 and 1997 was \$9.48 and \$1.83, respectively. Each warrant was exercisable at the date of grant and expires 5 years from such date. The costs of warrants issued in conjunction with private placements were costs of raising capital and thus were deducted from additional paid-in capital. The fair value of the warrants, which was determined in accordance with SFAS No. 123, offset the deductions to additional paid-in capital.

On October 27, 1999, the Company granted 50,000 warrants to a consultant as consideration for general corporate services. The warrants expire in October of 2002 and had a weighted average exercise price of \$12.00. The Company used the Black-Scholes model to calculate the fair value of these warrants by using the following weighted average assumptions: Volatility, 80%; Risk-free Interest Rate, 5.80%; Expected Dividends, \$0; and Expected Term, 2 years. Based on these assumptions, the computed fair value of warrants issued to consultants was \$140,000 and is charged to expense in the accompanying 1999 consolidated statement of operations.

On April 26, 2000, the Company entered into a Strategic Relationship Agreement (the "Strategic Relationship Agreement") with Genmar Holdings, Inc. ("Genmar"). The Strategic Relationship Agreement provides that Genmar will utilize the Company as its exclusive provider of an online procurement system. In connection

Edgar Filing: MAREX COM INC - Form 10-K

with the Strategic Relationship Agreement, the Company entered into a Warrant Agreement (the "Warrant Agreement") pursuant to which the Company issued to Genmar, on April 26, 2000 and April 26, 2001, warrants to purchase 1,442,081 and 1,495,256 shares, respectively, of Common Stock. All such warrants were exercisable immediately, subject to certain restrictions, and had an exercise price of \$1.83.

The Company accounted for the warrants issued to Genmar in accordance with EITF Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and SFAS No. 123, "Accounting for Stock-Based Compensation." In 2001, the Black-Scholes value of the warrants issued was calculated using the following assumptions: Volatility, 100%; Risk-free Interest Rate, 4.19%; Expected Dividends, \$0; and Expected Term, 2 years. Based on these assumptions, the computed fair value of the warrants issued on

37

April 26, 2001 was \$1.8 million. In 2000, the Black-Scholes value of the warrants issued was calculated using the following assumptions: Volatility, 80%; Risk-free Interest Rate, 6.42%; Expected Dividends, \$0; and Expected Term, 3 years. Based on these assumptions, the computed fair value of the warrants issued on April 26, 2000 was \$21.7 million. The computed fair values of the warrants issued are charges to expense in the accompanying unaudited consolidated statements of operations as "Fair value of warrants."

In August 2001, the Company and Genmar entered into agreement to terminate the Strategic Relationship Agreement and the Warrant Agreement. In its place, the Company and Genmar executed a Premiere Builder Agreement (the "Premiere Builder Agreement") to govern their business relationship prospectively. In connection with the Premiere Builder Agreement, all 2,937,337 warrants issued in accordance with the terms of the Warrant Agreement were cancelled.

The following is a summary of warrant activity during the years ended December 31, 2001, 2000 and 1999:

	Number of Warrants	Weighted Average Exercise Price
	-----	-----
Outstanding at December 31, 1998	33,000	\$ 1.83
Issued	403,971	9.79

Outstanding at December 31, 1999	436,971	9.19
Issued	1,442,081	1.83
Exercised	(27,000)	1.83

Outstanding at December 31, 2000	1,852,052	3.57
Issued	1,495,256	1.83
Cancelled	(2,937,337)	1.83

Outstanding at December 31, 2001	409,971	9.68
	=====	

NOTE 10 - RELATED PARTY TRANSACTIONS

In April 2001, the Company loaned its Chief Executive Officer, who is also a Director and shareholder, \$400,000. The loan accrues interest at an annual rate

Edgar Filing: MAREX COM INC - Form 10-K

of 8.0% and had an original maturity date on December 29, 2001. On March 26, 2002, the chairman of the Compensation Committee of the Board of Directors approved the extension of the maturity date to December 31, 2002.

On December 7, 2001, the Company loaned its Chief Executive Officer \$125,000. The loan, which accrued interest at an annual rate of 8.0% and matured on December 31, 2001, was repaid on its maturity date.

In November 2001 and March 2000, the Company made payments of \$25,000 and \$435,000, respectively, to a consultant, who is also a shareholder of the Company, pursuant to strategic business consulting agreements. Consulting expense related to the agreements totaled \$25,000 and \$435,000 in 2001 and 2000, respectively. The consulting expenses are included in the accompanying consolidated statements of operations as a component of "General and administrative" expenses.

In July 1999, the Company loaned its Chief Executive Officer, who is also a Director and a shareholder, \$22,200. The loan bore an interest rate of 1% over the prime rate and was repaid upon maturity in July of 2000. Interest income earned by the Company from this loan was approximately \$875 and \$900 during 2000 and 1999, respectively.

The Chief Executive Officer owns another company, which prior to 1999, made loans to the Company pursuant to a revolving loan agreement. The loan agreement specified interest at 2.5% over the prime rate, with principal due upon demand. The loan was paid during 1999. The Company incurred approximately \$2,000 of interest expense under the revolving loan agreement during 1999.

38

NOTE 11 - SEGMENT INFORMATION

For internal management reporting purposes, the Company currently operates two primary business segments: electronic commerce products and management information solutions software products. Electronic commerce products consist of our internally developed procurement solutions, MarExpress! and MarexPO!. Management information solution software products consist of those products obtained through the acquisition of Software Support Team on October 2, 2001. These operating segments generally follow the management organizational structure of the Company. Sales are made only to external customers in the United States of America. Information on operating segments in 2001 is as follows:

	Management Information Solutions -----	Electronic Commerce -----
Net sales	\$ 361,420 =====	\$ 261,311 =====
Cost and expenses	\$ 683,162 =====	\$ 19,983,680 =====
Interest income	\$ 737 =====	\$ 471,524 =====
Interest expense	\$ 1,074 =====	\$ 54,601 =====
Net loss	\$ (321,745) =====	\$ (19,306,017) =====

Edgar Filing: MAREX COM INC - Form 10-K

Total assets at year end	\$ 2,395,059	\$ 7,266,878
	=====	=====
Long-lived assets at year end	\$ 1,723,926	\$ 2,121,497
	=====	=====

During 2001 and 2000, revenues from one customer accounted for approximately 51% and 47% of total revenues of the electronic commerce operating segment.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases its office space under non-cancelable operating leases, which expire at various dates through 2004. In 2001, the Company subleased office space under non-cancelable operating leases, which expire in 2004.

Future minimum lease payments under non-cancelable operating leases and sublease payments to be received under non-cancelable subleases as of December 31, 2001 are as follows:

	Future Minimum Lease Payments	Future Sublease Payments	Future Minimum Lease Payments, Net
	-----	-----	-----
2002	\$ 582,268	\$ (47,753)	\$ 534,515
2003	476,539	(49,934)	426,605
2004	122,417	(16,215)	106,202
	-----	-----	-----
	\$ 1,181,224	\$ (113,902)	\$ 1,067,322
	=====	=====	=====

Rental expense on operating leases, net of sublease income, was \$701,000, \$239,000 and \$84,000 during 2001, 2000 and 1999, respectively.

EMPLOYMENT AGREEMENTS

The Company has employment contracts with its executive officers, which expire at various dates through December 31, 2004. The agreements provide for minimum salary levels, annual bonuses at the sole discretion of the Board of Directors and other benefits upon a change of control. The commitment for future salaries at December 31, 2001, excluding bonuses, are as follows:

2002	\$ 265,000
2003	265,000
2004	265,000

Total	\$ 795,000
	=====

LEGAL MATTERS

The Company is involved in only ordinary, routine litigation and claims

Edgar Filing: MAREX COM INC - Form 10-K

incidental to its business. Although the outcome of such matters cannot be predicted with certainty and some of these matters may be disposed of unfavorably to the Company, based on currently available information, the Company does not believe that such legal matters will have a material adverse effect on its consolidated financial position or results of operations.

On February 13, 2002, the Company entered into a settlement agreement with a consultant, related to \$815,000 of disputed invoices. Under the settlement agreement, neither party shall pay any amounts related to the dispute. The \$815,000, which had previously been recognized as impairment of software development costs in the consolidated statement of operations as of December 31, 2001, was reversed, and consequently partially offset the \$6.7 million charge related to software development costs.

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

None

40

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required in response to this item is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required in response to this item is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this item is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

41

PART IV

Edgar Filing: MAREX COM INC - Form 10-K

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) EXHIBITS

EXHIBITS -----	DESCRIPTION OF DOCUMENT -----
3.1	Form of Amended and Restated Articles of Incorporation of the Company (1)
3.2	Form of Amended and Restated Bylaws of the Company (1)
3.3	Articles of Amendment to Amended and Restated Articles of Incorporation of the Company (3)
4.1	Certificate of Designation for the Series A1 Convertible Preferred Stock, par value \$.01 (3)
4.2	Securities Purchase Agreement among Marex, Inc. and Certain Purchasers, dated March 2, 2000 (3)
4.3	Registration Rights Agreement among Marex, Inc. and Certain Purchasers, dated March 2, 2000 (3)
10.1	1996 Incentive Stock Option Plan, as amended (1)
10.2	Amended and Restated 1997 Stock Option Plan (2)
10.3	Company's Office Lease, 2701 South Bayshore Dr., Miami, FL, as amended (4)
10.4	Company's Office Lease, 5835 Blue Lagoon Dr., Miami, FL, as amended (5)
10.5	Stock Purchase Agreement among Marex, Inc., Software Support Team, Inc., Arthur M. Peacock and Albert L. Peacock, dated September 21, 2001 (6)
21.1	Subsidiaries of the Registrant (7)
23.1	Consent of Arthur Andersen LLP (7)
99.1	Letter to the Securities and Exchange Commission dated April 15, 2002 regarding Arthur Andersen LLP quality control (7)

-
- (1) Previously filed as an exhibit to the Company's Form 10-SB and Amendment No. 1 to Form 10-SB.
 - (2) Previously filed as part of the Company's Form DEFS14A filed on October 19, 1999.
 - (3) Previously filed as an exhibit to the Company's Form 8-K filed on March 8, 2000.
 - (4) Previously filed as an exhibit to the Company's Form 10-K filed on March 23, 2000.

Edgar Filing: MAREX COM INC - Form 10-K

- (5) Previously filed as an exhibit to the Company's Form 10-K filed on March 23, 2001.
- (6) Previously filed as an exhibit to the Company's Form 8-K filed on October 16, 2001.
- (7) Filed herewith.

(b) REPORTS ON FORM 8-K

On October 16, 2001, the Company filed a report on Form 8-K which announced that the Stock Purchase Agreement among Marex, Inc., Software Support Team, Inc., Arthur M. Peacock and Albert L. Peacock had been executed.

SIGNATURES

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

MAREX, INC.

Date: APRIL 15, 2002

BY: /s/ DAVID A. SCHWEDEL

David A. Schwedel
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ DAVID A. SCHWEDEL ----- David A. Schwedel	Director, Chairman of the Board, and Chief Executive Officer (Principal Accounting Officer)	April

