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MAREX COM INC  
Form 10-Q  
August 03, 2001

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 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

Former name: Marex.com, Inc.

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  No

The number of shares outstanding of the registrant's Common Stock as of July 31, 2001 was 7,343,980.

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MAREX, INC.

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### MAREX, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
	(unaudited)	

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ASSETS

Current assets:		
Cash and cash equivalents	\$ 9,338,077	\$ 19,624,266
Accounts receivable, net	88,929	18,901
Prepaid expenses and other current assets	311,944	714,350
Loan to related party	400,000	-
	-----	-----
Total current assets	10,138,950	20,357,517
	-----	-----
Property and equipment, net	1,790,076	2,004,853
	-----	-----
Other assets:		
Trademark, net	--	6,771
Software development costs, net	7,500,027	8,904,897
Deposits	193,062	197,643
	-----	-----
Total other assets	7,693,089	9,109,311
	-----	-----
Total assets	\$ 19,622,115	\$ 31,471,681
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Capital lease obligations	\$ 135,617	\$ 130,481
Accounts payable and accrued expenses	2,211,294	7,195,954
	-----	-----
Total current liabilities	2,346,911	7,326,435
Long-term liabilities:		
Capital lease obligations, net of current portion	143,526	217,306
	-----	-----
Total liabilities	2,490,437	7,543,741
	-----	-----
Shareholders' equity:		
Preferred Stock, par value \$.01 per share, 1,000,000 shares authorized, 304,693 shares of Series A1 Convertible Preferred Stock outstanding as of June 30, 2001 and December 31, 2000	30,469,300	30,469,300
Common Stock, par value \$.01 per share, 25,000,000 shares authorized, 7,343,980 and 7,339,780 shares issued and outstanding as of June 30, 2001 and December 31, 2000, respectively	73,440	73,398
Additional paid-in capital	44,723,360	42,721,486
Accumulated deficit	(58,134,422)	(49,336,244)
	-----	-----
Total shareholders' equity	17,131,678	23,927,940
	-----	-----
Total liabilities and shareholders' equity	\$ 19,622,115	\$ 31,471,681
	=====	=====

See Notes to Condensed Consolidated Financial Statements

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MAREX, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MON JUN
	2001	2000	2001
Revenues	\$ 103,987	\$ 1,165	\$ 152,655
Operating expenses:			
Product support and development	1,702,832	2,427,018	3,675,366
Selling and marketing	1,027,740	1,850,035	2,116,261
General and administrative	790,115	1,600,691	1,488,441
Stock-based compensation	118,709	118,709	236,114
Fair value of warrants	1,764,402	21,746,581	1,764,402
Total operating expenses	5,403,798	27,743,034	9,280,584
Loss from operations	(5,299,811)	(27,741,869)	(9,127,929)
Other income (expense):			
Interest income	130,924	444,703	353,437
Interest expense	(9,145)	(1,922)	(17,513)
Other	2,020	(1,723)	(6,173)
Total other income	123,799	441,058	329,751
Net loss	\$ (5,176,012)	\$ (27,300,811)	\$ (8,798,178)
Net loss per share, basic and diluted	\$ (0.70)	\$ (4.21)	\$ (1.20)
Weighted average shares of Common Stock outstanding	7,343,980	6,490,541	7,342,820

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See Notes to Condensed Consolidated Financial Statements

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MAREX, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	SIX MONTHS JUNE 30
	----- 2001 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (8,798,178)
Adjustments to reconcile net loss to net cash used in operating activities	
Provision for doubtful accounts	763
Depreciation	399,815
Amortization	1,174,106
Stock-based compensation	236,114
Fair value of warrants	1,764,402
Loss on disposal of property and equipment	--
Increase in accounts receivable	(70,791)
Decrease (increase) in prepaid expenses and other current assets	402,406
Decrease in deposits	4,581
(Decrease) increase in accounts payable and accrued expenses	(4,215,782)
	-----
Net cash used in operating activities	(9,102,564)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(185,038)
Additions to software development costs	(531,343)
(Increase) decrease in loan to related party	(400,000)
	-----
Net cash used in investing activities	(1,116,381)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on capital lease obligations	(68,644)
Proceeds from exercise of stock options and warrants	1,400
Proceeds from issuance of Preferred Stock	--
	-----
Net cash (used in) provided by financing activities	(67,244)
	-----
Net (decrease) increase in cash and cash equivalents	(10,286,189)
CASH AND CASH EQUIVALENTS, beginning of period	19,624,266

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CASH AND CASH EQUIVALENTS, end of period	\$ 9,338,077
=====	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during each period for interest	\$ 17,513
=====	
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:	
Acquisition of equipment under capital lease obligations	\$ --
=====	

See Notes to Condensed Consolidated Financial Statements

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## MAREX, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### (1) BASIS OF FINANCIAL STATEMENT PRESENTATION

In management's opinion, the accompanying unaudited condensed consolidated financial statements of Marex, Inc. and subsidiaries (the "Company") contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows for each period shown. The results of operations for the 2001 interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2001.

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

The accounting policies followed for interim financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

### (2) RECENT ACCOUNTING PRONOUNCEMENT

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges

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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 did not hold any derivative instruments.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations". SFAS 141 addresses financial accounting and reporting for business combinations and supercedes Accounting Principles Board Opinion ("APB") No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of SFAS 141 are to be accounted for under the purchase method. SFAS 141 is effective June 30, 2001. The Company does not expect the adoption of SFAS 141 to have an impact on its financial position, results of operations or cash flows.

In July 2001, the FASB also issued SFAS 142, "Goodwill and Other Intangible Assets". SFAS 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 142 also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. With the adoption of SFAS 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 142 is effective for fiscal years beginning after December 15, 2001. Impairment loss for goodwill arising from the initial application of SFAS 142 is to be reported as

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resulting from a change in accounting principle. The Company does not expect the adoption of SFAS 142 to have an impact on its financial position, results of operations or cash flows.

### (3) NET LOSS PER SHARE

The Company is required to present basic and diluted earnings per share information. Basic earnings per share is computed by dividing income available to common stockholders (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. Diluted earnings per share was the same as basic earnings per share for all periods presented because the Company reported a net loss for all periods presented and, therefore, the effects of potential shares would be anti-dilutive. The total number of potential shares outstanding at June 30, 2001 and 2000 that were excluded from the diluted earnings per share calculation was approximately 9.5 million and 7.4 million, respectively.

### (4) SOFTWARE DEVELOPMENT COSTS

The Company follows Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and EITF 00-02, "Accounting for Web Site Development Costs," for the accounting of development costs. During the six months ended June 30, 2001 and 2000, the Company capitalized \$531,000 and \$2.7 million, respectively, of development costs associated with development of its e-commerce solutions.

### (5) ACCOUNTING FOR STOCK-BASED COMPENSATION

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The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under APB No. 25, compensation cost 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. In March 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. Compensation expense related to the vested portion of stock options granted to the director totaled \$119,000 and \$236,000, respectively, for the three months and six months ended June 30, 2001, and \$119,000 and \$608,000, respectively, for the three months and six months ended June 30, 2000. The compensation expense is included in the unaudited condensed consolidated statements of operations as "Stock-based compensation."

### (6) INCOME TAXES

The Company did not record a benefit for income taxes due to the full valuation allowance that has been recorded given the uncertainty of the realization of its deferred income tax assets.

### (7) 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

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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.

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



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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.

### (8) WARRANTS

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 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 are exercisable immediately, subject to certain restrictions, and have an exercise price of \$1.83.

The Company accounted for the warrants issued to Genmar by amortizing the Black-Scholes value of such warrants over the vesting period. 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

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warrants issued on 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 charged to expense in the accompanying unaudited condensed consolidated statements of operations as "Fair value of warrants."

### (9) MAJOR CUSTOMER

For the three months and six months ended June 30, 2001, revenues from one major customer accounted for approximately 58% of total revenues.

### (10) RELATED PARTY TRANSACTIONS

In 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 of 8.0%

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and matures on December 29, 2001.

In March 2000, the Company made a payment of \$435,000 to a consultant, who is also a shareholder of the Company, for strategic business consulting. Under the arrangement, the consultant is obligated to provide consulting services to the Company through December 31, 2000. Consulting expense related to the agreement totaled \$109,000 and \$218,000 for the three months and six months ended June 30, 2000, respectively, and is included in the accompanying unaudited condensed consolidated statements of operations as a component of "General and administrative" expenses.

### (11) LEGAL MATTERS

The Company is involved in 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.

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, WHICH ARE INCLUDED ELSEWHERE IN THIS FORM 10-Q. 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 MATTERS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS WHICH MAY CAUSE OUR ACTUAL RESULTS, PERFORMANCE, OR ACHIEVEMENTS 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 is the leading e-commerce company serving the marine industry. Our mission is to improve the efficiency of marine industry supply chains. We have developed procurement solutions for the automation of business transactions for marine businesses.

Our objective is to expand our position as the leading e-commerce solution for the marine industry. We are focused on developing our business to provide the most efficient tools possible for the procurement of marine goods.

In June 2000, we launched our main products, MarExpress! and MarexPO!. MarExpress! provides boat builders and other marine industry buyers with an e-procurement solution that enables them to buy new parts, supplies, components, and equipment through a web-based transaction system. Buyers can obtain product information, conduct e-procurement to support business workflows and controls, track orders, and complete product returns through a single, automated, online hub. MarexPO! is an e-commerce solution for marine industry suppliers and distributors that provides worldwide exposure and enables them to sell new

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parts, supplies, components and equipment to marine businesses through a web-based transaction system. By utilizing a thorough outfitting process for buyers and suppliers, the system recognizes the unique relationships between each buyer and supplier and only provides the supplier's product information and pricing that is appropriate for each specific buyer. Prior to the launch of our main products, our Internet based trading exchange, the Exchange, and its successor, Classifieds and Auctions, were the only products offered to the marine industry. In order to focus all of our resources on our main products, we suspended the Classifieds and Auctions product in the first quarter of 2001.

### RESULTS OF OPERATIONS

#### COMPARISON OF THREE MONTHS ENDED JUNE 30, 2001 AND 2000

##### REVENUES

For the three months ended June 30, 2001, we recorded revenues of \$104,000 compared to \$1,000 during the same period in 2000. The increase was primarily due to the launch of MarExpress! and MarexPO! in June 2000.

MarExpress! and MarexPO! generate revenues by charging a transaction fee which is based on the gross transaction price of items purchased and sold through the system. The transaction fee is recognized as revenue when our customers' right to receive a refund for the transaction fee expires. For the three

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months ended June 30, 2001, we recorded revenues of \$104,000 generated from \$6.0 million of transactions. As of June 30, 2001, in process transactions totaled \$2.5 million, which represent \$43,000 of revenues that may be recognized in future periods. MarExpress! and MarexPO! were not launched until June 2000, therefore no revenue was recognized from these products during the three months ended June 30, 2000. As of June 30, 2001, we had entered into agreements with 39 boat builders and 143 suppliers. Of these agreements, 18 boat builders and 75 suppliers were online.

Classifieds and Auctions generated revenues by charging listing and transaction fees. For the three months ended June 30, 2000, we recorded revenues of \$1,000 generated from \$22,000 of completed transactions through Classifieds and Auctions. For the same period in 2001, no revenue was recognized from this product.

##### PRODUCT SUPPORT AND DEVELOPMENT

Product support and development expenses consist primarily of compensation for product support and development personnel, cost of outside contractors, software support costs, amortization of software development costs, and other costs associated with the operations and enhancements of our e-commerce products. Product support and development expenses decreased to \$1.7 million for the three months ended June 30, 2001, compared to \$2.4 million for the same period in 2000. The change related primarily to a decrease of \$1.4 million in outside contractor costs, which was partially offset by increases of \$448,000 in amortization of software development costs and \$188,000 in software support costs. The decrease in outside contractor costs was attributable to the completion of the development of our MarexPO! and MarExpress! products in 2000.

##### SELLING AND MARKETING

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Selling and marketing expenses consist primarily of compensation for sales and marketing personnel, cost of outside contractors and marketing costs. Selling and marketing expenses decreased to \$1.0 million for the three months ended June 30, 2001, compared to \$1.9 million for the same period in 2000. The change is primarily due to decreases of \$537,000 in marketing costs and \$196,000 in outside contractor costs. The balance was comprised of decreases in 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 decreased to \$790,000 for the three months ended June 30, 2001, compared to \$1.6 million for the same period in 2000. The change related primarily to decreases of \$352,000 in personnel and personnel related costs, \$162,000 in professional fees, and \$109,000 for consulting services. The balance was comprised of decreases in corporate charges directly associated with our administrative functions.

### STOCK-BASED COMPENSATION

For the three months ended June 30, 2001 and 2000, we recorded a non-cash compensation expense of \$119,000 relating to the vested portion of stock options granted to a director.

### FAIR VALUE OF WARRANTS

For the three months ended June 30, 2001, we recorded 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

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for the same period in 2000. The difference in the expense recorded is primarily attributable to the market price of our Common Stock at the date of issuance compared to the exercise price.

### OTHER INCOME AND EXPENSE

We recorded \$131,000 of interest income for the three months ended June 30, 2001, compared to \$445,000 for the three months ended June 30, 2000. The decrease was a result of lower balances of marketable securities. Interest expense for the three months ended June 30, 2001 was \$9,000, compared to \$2,000 for the three months ended June 30, 2000. The increase was due to the increase in capital lease obligations.

### NET LOSS

Our net loss decreased to \$5.2 million for the three months ended June 30, 2001, compared to \$27.3 million for the three months ended June 30, 2000. The change resulted from decreases in the fair value of warrants issued and decreases in costs, as described above.

### COMPARISON OF SIX MONTHS ENDED JUNE 30, 2001 AND 2000

#### REVENUES

For the six months ended June 30, 2001, we recorded revenues of \$153,000 generated from \$8.8 million of transactions. For the same period in 2000, we recorded revenues of \$5,000 generated from \$108,000 of completed transactions through the Exchange and Classifieds and Auctions. The increase was primarily

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due to the launch of MarExpress! and MarexPO! in June 2000.

### PRODUCT SUPPORT AND DEVELOPMENT

Product support and development expenses consist primarily of compensation for product support and development personnel, cost of outside contractors, software support costs, amortization of software development costs, and other costs associated with the operations and enhancements of our e-commerce products. Product support and development expenses increased to \$3.7 million for the six months ended June 30, 2001, compared to \$3.2 million for the same period in 2000. The change related primarily to increases of \$1.0 million in amortization of software development costs, \$367,000 in software support costs and \$351,000 in personnel and personnel related costs, which were partially offset by a decrease of \$1.3 million in outside contractor costs. The balance was comprised of overhead and operating costs directly associated with the development and maintenance of the website and e-commerce products.

### SELLING AND MARKETING

Selling and marketing expenses consist primarily of compensation for sales and marketing personnel, cost of outside contractors and marketing costs. Selling and marketing expenses decreased to \$2.1 million for the six months ended June 30, 2001, compared to \$2.8 million for the same period in 2000. The change is primarily due to decreases of \$870,000 in marketing costs and \$116,000 in outside contractor costs, which were partially offset by an increase of \$258,000 in personnel and personnel related costs.

### 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 \$1.5 million for the six months ended June 30, 2001, compared to \$2.6 million for the same period in 2000. The change related primarily to decreases of \$622,000 in personnel and

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personnel related costs, \$207,000 in professional fees, and \$218,000 for consulting services. The balance was comprised of decreases in corporate charges directly associated with our administrative functions.

### STOCK-BASED COMPENSATION

Stock-based compensation resulting from stock options granted to a director decreased to \$236,000 for the six months ended June 30, 2001, compared to \$608,000 for the same period in 2000. The decrease resulted from a larger portion of the stock options vesting during the first six months of 2000.

### FAIR VALUE OF WARRANTS

For the six months ended June 30, 2001, we recorded 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 for the same period in 2000.

### OTHER INCOME AND EXPENSE

We recorded \$353,000 of interest income for the six months ended June 30, 2001, compared to \$535,000 for the six months ended June 30, 2000. The decrease was a

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result of lower balances of marketable securities. Interest expense for the six months ended June 30, 2001 was \$18,000, compared to \$3,000 for the six months ended June 30, 2000. The increase was due to the increase in capital lease obligations.

### NET LOSS

Our net loss decreased to \$8.8 million for the six months ended June 30, 2001, from \$30.4 million for the six months ended June 30, 2000. The change resulted from decreases in the fair value of warrants issued and decreases in costs, as described above.

### 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 \$9.1 million for the six months ended June 30, 2001, primarily as a result of a net loss of \$8.8 million and a decrease of \$4.2 million in accounts payable and accrued expenses. The net loss and decrease in accounts payable and accrued expenses were partially offset by a non-cash charge of \$1.8 million for the fair value of warrants issued, amortization expense of \$1.2 million, a decrease in prepaid expenses and other current assets of \$402,000 and depreciation expense of \$400,000.

Net cash used in investing activities was \$1.1 million for the six months ended June 30, 2001, primarily due to \$531,000 of software development costs related to the continuing development of our e-commerce solutions and a \$400,000 loan to a related party.

Net cash used in financing activities was \$67,000 for the six months ended June 30, 2001, primarily due to principal payments on capital lease obligations.

At June 30, 2001, cash and cash equivalents totaled \$9.3 million, while our working capital was \$7.8 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 for at least the next twelve months. 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 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 to 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 PRONOUNCEMENT

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Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires us 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, we adopted SFAS No. 133 in the first quarter of 2001. The adoption of this statement did not have an effect on our financial position, results of operations or cash flows as we did not hold any derivative instruments.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS 141 addresses financial accounting and reporting for business combinations and supercedes Accounting Principles Board Opinion ("APB") No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of SFAS 141 are to be accounted for under the purchase method. SFAS 141 is effective June 30, 2001. We do not expect the adoption of SFAS 141 to have an impact on our financial position, results of operations or cash flows.

In July 2001, the FASB also issued SFAS 142, "Goodwill and Other Intangible Assets". SFAS 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 142 also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. With the adoption of SFAS 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 142 is effective for fiscal years beginning after December 15, 2001. Impairment loss for goodwill arising from the initial application of SFAS 142 is to be reported as resulting from a change in accounting principle. We do not expect the adoption of SFAS 142 to have an impact on our financial position, results of operations or cash flows.

### RISK FACTORS

#### WE HAVE A LIMITED OPERATING HISTORY

Marex was founded in 1992 but did not launch its main products until June 2000. Thus, we have a limited operating history on which to base an evaluation of our e-commerce 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 B2B e-commerce. Many of these risks are described in this "Risk Factors" section. There can be no assurance that we will be able to address these risks.

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#### WE HAVE A HISTORY OF LOSSES

We have incurred losses from operations in each period since our inception. 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.

OUR QUARTERLY OPERATING RESULTS ARE VOLATILE AND DIFFICULT TO PREDICT

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Due to our limited operating history, we believe that period-to-period comparisons of revenues and results of operations are not meaningful. The fluctuations in our operating results may fall below the expectations of investors and securities analysts. Our failure to meet these expectations will likely cause a significant decline in the market price of our stock.

### THE BUSINESS TO BUSINESS E-COMMERCE MODEL IS NOT PROVEN

Our B2B e-commerce model is new and not proven and depends upon our ability to, among other things: sell purchasing solutions to marine industry participants; achieve high rates of adoption by customers; and generate significant revenues from the use of our Internet-based solutions. We cannot be certain that the business model will be successful, that it can achieve or sustain revenue growth, or that it can generate any profits. The success of this business model will require, among other things, that we develop and market solutions with broad market acceptance by users and strategic partners. We cannot be certain that B2B e-commerce on the Internet, our e-commerce solution, or our services and brand in particular, will achieve broad market acceptance.

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

MarExpress! and MarexPO! were launched in June 2000. Accordingly, our core e-commerce solutions have a limited market history. If MarExpress! and MarexPO! do not achieve market acceptance, our business will be adversely affected.

### 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 for at least the next twelve months. 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 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 to 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.

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### WE FACE INTENSE COMPETITION

We face competition from other companies with e-commerce offerings as well as traditional suppliers and distributors of marine products and marine 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 marine products. Our competitors and potential competitors may develop superior Internet solutions that achieve greater market acceptance than the Marex solution. In addition, substantially all of our prospective customers have established long-standing relationships



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with some competitors and potential competitors. We cannot be certain that we can compete successfully against future competitors.

### OUR SOLUTION AND SERVICES ARE NEW AND FACE RAPID TECHNOLOGICAL CHANGES

The Internet market for the Marex solution is characterized by rapid technological advances, evolving standards in the Internet and 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 Internet-based solutions and services, and where necessary, to integrate Internet-based solutions with customers' systems. If we do not adequately respond to the need to enhance our solutions or services, then our business will be negatively affected. Further, we may incur significant expense to integrate purchasing solutions with customers' systems and to maintain this integration as customers' systems evolve. Failure to provide this integration may delay or altogether dissuade the marine market or a particular customer from adopting our Internet-based solutions.

### 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 market for e-commerce purchasing solutions to the marine industry.

### WE DEPEND ON A MAJOR CUSTOMER

We have an agreement with one of the largest manufacturers of powerboats in the world for the utilization of our e-procurement solution. Our future growth is greatly dependent upon the utilization of our system by this major customer. If the agreement with this major customer is terminated, our business, results of operations and financial condition will be adversely affected.

### 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 marine industry.

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### WE EXPECT THE PRICE OF OUR COMMON STOCK TO BE VOLATILE

The market price of our Common Stock may fluctuate significantly in response to a number of factors, some which are beyond our control, including the following: quarterly variations in operating results; changes in market valuation of

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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 INTERNET-BASED PURCHASING SOLUTIONS

A significant barrier to the adoption of e-commerce 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 solution as a 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 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 is seasonal due to the impact of the buying and selling patterns of the members that utilize our system. 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.

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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 June 30, 2001.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

The Company is involved in 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 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

On May 21, 2001, the Company held an annual meeting in Miami, Florida. The matters voted upon and their results were as follows:

##### PROPOSAL 1

To elect directors of the Company, each to serve until the 2002 Annual Meeting or until his successor has been duly elected and qualified.

All nominees were elected based on the following voting results:

Director	For	Against	Abstain
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David A. Schwedel	7,113,284	0	5,561
Daniel F. Gallagher	7,113,284	0	5,561
George Glazer	7,113,284	0	5,561
Robert C. Harris, Jr.	7,113,284	0	5,561
Roger Trombino	7,113,284	0	5,561

##### PROPOSAL 2

To ratify the appointment of Arthur Andersen LLP as independent certified public accountants of the Company for the year ending December 31, 2001.

Proposal 2 was approved based on the following voting results:

For	Against	Abstain
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7,113,170	4,225	1,450

##### PROPOSAL 3

To approve an amendment to the Company's Amended and Restated Articles of

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Incorporation to change the name of the Company to Marex, Inc.

Proposal 3 was approved based on the following voting results:

For	Against	Abstain
7,114,725	4,000	120

### ITEM 5. OTHER INFORMATION

Not applicable.

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### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

EXHIBITS	DESCRIPTION OF DOCUMENT
3.1	Amended and Restated Articles of Incorporation of the Company (1)
3.2	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)

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- (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.
  - (5) Previously filed as an exhibit to the Company's Form 10-K filed on March

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23, 2001.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended June 30, 2001.

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SIGNATURES

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

MAREX, INC.

August 3, 2001

BY: /s/ DAVID A. SCHWEDEL

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David A. Schwedel  
Chief Executive Officer

August 3, 2001

BY: /s/ KENBIAN A. NG

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Kenbian A. Ng  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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