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MAREX COM INC  
Form 10-Q  
November 14, 2002

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 SEPTEMBER 30, 2002

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.)

2701 S. Bayshaore Drive, 5th Floor  
Miami, Florida

33126

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (305) 285-2003

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  
-- --

The number of shares outstanding of the registrant's Common Stock as of November 6, 2002 was 763,597.

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MAREX, INC.

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MAREX, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|               |          |
|---------------|----------|
| September 30, | December |
| 2002          | 200      |
| -----         | -----    |
| (unaudited)   |          |

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ASSETS

|   |              |         |
|---|--------------|---------|
| Current assets:                           |              |         |
| Cash and cash equivalents                 | \$ 478,883   | \$ 4,47 |
| Accounts receivable, net                  | 47,981       | 27      |
| Inventories                               | --           | 1       |
| Prepaid expenses and other current assets | 73,815       | 14      |
| Loan to related party                     | 449,746      | 42      |
|   | -----        | -----   |
| Total current assets                      | 1,050,425    | 5,34    |
|   | -----        | -----   |
| Property and equipment, net               | 367,047      | 1,53    |
|   | -----        | -----   |
| Other assets:                             |              |         |
| Trademark, net                            | --           |         |
| Software development costs, net           | 458,789      | 2,31    |
| Goodwill                                  | --           | 30      |
| Deposits and other assets                 | 7,113        | 17      |
|   | -----        | -----   |
| Total other assets                        | 465,902      | 2,78    |
|   | -----        | -----   |
| Total assets                              | \$ 1,883,374 | \$ 9,66 |
|   | =====        | =====   |

LIABILITIES AND SHAREHOLDERS' EQUITY

|  |              |        |
|--|--------------|--------|
| Current liabilities:   |              |        |
| Current portion of seller-financed note payable  | \$ --        | \$ 68  |
| Current portion of capital lease obligations   | 15,385       | 16     |
| Accounts payable and accrued expenses  | 352,248      | 1,45   |
|  | -----        | -----  |
| Total current liabilities  | 367,633      | 2,30   |
|  | -----        | -----  |
| Long-term liabilities:   |              |        |
| Seller-financed note payable, net of current portion   | --           | 72     |
| Capital lease obligations, net of current portion  | 10,598       | 9      |
|  | -----        | -----  |
| Total long-term liabilities  | 10,598       | 81     |
|  | -----        | -----  |
| Total liabilities  | 378,231      | 3,11   |
|  | -----        | -----  |
| 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 September 30, 2002 and December 31, 2001        | 26,675,000   | 30,17  |
| Common Stock, par value \$.01 per share, 25,000,000 shares authorized, 763,597 and 736,662 shares, post split, issued and outstanding as of September 30, 2002 and December 31, 2001, respectively | 7,636        |        |
| Additional paid-in capital   | 48,940,895   | 45,32  |
| Accumulated deficit  | (74,118,388) | (68,96 |
|  | -----        | -----  |
| Total shareholders' equity   | 1,505,143    | 6,54   |

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|  |              |         |
|--|--------------|---------|
| Total liabilities and shareholders' equity | \$ 1,883,374 | \$ 9,66 |
|  | =====        | =====   |

See Notes to Condensed Consolidated Financial Statements

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

|  | Three Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|
|  | 2002                                | 2001        |
| Revenues                                 | \$ --                               | \$ 92,921   |
| Operating expenses:                      |                                     |             |
| Product support and development          | 204,847                             | 1,231,669   |
| Selling and marketing                    | 9,089                               | 710,788     |
| General and administrative               | 111,765                             | 769,816     |
| Impairment of software development costs | --                                  | 6,679,679   |
| Impairment of long-lived assets          | --                                  | --          |
| Stock-based compensation                 | --                                  | 120,013     |
| Fair value of warrants                   | --                                  | --          |
| Total operating expenses                 | 325,701                             | 9,511,965   |
| Loss from operations                     | (325,701)                           | (9,419,044) |
| Other income (expense):                  |                                     |             |
| Interest income                          | 17,158                              | 79,854      |
| Interest expense                         | --                                  | (8,799)     |
| Other                                    | 85,348                              | (374)       |
| Total other income                       | 102,506                             | 70,681      |
| Loss from continuing operations          | (223,195)                           | (9,348,363) |
| Discontinued operations:                 |                                     |             |
| Loss from operations of segment          | (138,165)                           | --          |
| Loss on disposal                         | (134,103)                           | --          |

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|  |              |                |       |
|--|--------------|----------------|-------|
| Total discontinued operations                                      | (272,268)    | --             |       |
|  | -----        | -----          | ----- |
| Net loss   | \$ (495,463) | \$ (9,348,363) | \$ (  |
|  | =====        | =====          | ===== |
| Net less per share, basic and diluted:                             |              |                |       |
| Continuing operations  | (0.29)       | (12.73)        |       |
| Discontinued operations  | (0.36)       | --             |       |
|  | -----        | -----          | ----- |
| Net loss   | \$ (0.65)    | \$ (12.73)     | \$    |
|  | =====        | =====          | ===== |
| Weighted average shares of Common Stock<br>outstanding, post split | 763,585      | 734,398        |       |
|  | =====        | =====          | ===== |

See Notes to Condensed Consolidated Financial Statements

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

|   | Nine Months<br>Ended<br>September 30, |       |
|---|---------------------------------------|-------|
|   | 2002                                  |       |
|   | -----                                 | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                                       |       |
| Net loss  | \$ (5,154,383)                        | \$ (  |
| Adjustments to reconcile net loss to<br>net cash used in operating activities |                                       |       |
| Provision for doubtful accounts   | 160,857                               |       |
| Depreciation  | 583,785                               |       |
| Amortization  | 780,109                               |       |
| Impairment of software development costs                                      | --                                    |       |
| Impairment of long-lived assets   | 468,546                               |       |
| Stock-based compensation  | 117,404                               |       |
| Fair value of warrants  | --                                    |       |
| Gain on disposal of property and equipment                                    | (8,441)                               |       |
| Loss on disposal of segment   | 134,103                               |       |
| Decrease (increase) in accounts receivable                                    | 7,770                                 |       |
| Increase in inventory   | (1,986)                               |       |
| Decrease in prepaid expenses and other current assets                         | 67,202                                |       |
| Decrease (increase) in deposits   | 150,164                               |       |
| Decrease in accounts payable and accrued expenses                             | (828,830)                             |       |

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|   |             |    |
|---|-------------|----|
|   | -----       |    |
| Net cash used in operating activities                 | (3,523,700) | (  |
|   | -----       |    |
| CASH FLOWS FROM INVESTING ACTIVITIES:                 |             |    |
| Purchases of property and equipment                   | (36,458)    |    |
| Proceeds from sale of fixed assets                    | 22,974      |    |
| Proceeds from sale of assets of segment               | 279,120     |    |
| Software development costs                            | (264,506)   |    |
| Increase in loan to related party                     | (24,097)    |    |
|   | -----       |    |
| Net cash used in investing activities                 | (22,967)    |    |
|   | -----       |    |
| CASH FLOWS FROM FINANCING ACTIVITIES:                 |             |    |
| Principal payments on capital lease obligations       | (116,278)   |    |
| Principal payments on note payable                    | (337,267)   |    |
| Proceeds from exercise of stock options and warrants  | --          |    |
|   | -----       |    |
| Net cash used in financing activities                 | (453,545)   |    |
|   | -----       |    |
| Net decrease in cash and cash equivalents             | (4,000,212) | (  |
|   |             |    |
| CASH AND CASH EQUIVALENTS, beginning of period        | 4,479,095   |    |
|   | -----       |    |
| CASH AND CASH EQUIVALENTS, end of period              | \$ 478,883  | \$ |
|   | =====       | == |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW<br>INFORMATION: |             |    |
| Cash paid during each period for interest             | \$ 45,273   | \$ |
|   | =====       | == |

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 2002 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, 2002.

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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, 2001.

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, 2001.

### (2) GOING CONCERN CONSIDERATIONS

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have sustained net operating losses, which include approximately \$23.5 million of non-cash charges related to fair value of warrants and approximately \$1.4 million of non-cash charges related to stock-based compensation, and negative cash flows from operations since inception and have an accumulated deficit of \$74,118,388. Such conditions, among others, give rise to substantial doubt about our ability to continue as a going concern for a reasonable period of time. The accompanying unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might be necessary should we be unable to continue as a going concern.

We currently anticipate that our available funds will be sufficient to meet our projected working capital and operating resource requirements into the first quarter of 2003 since we significantly decreased our staff and, during April 2002, shifted our focus from our electronic commerce solutions to our telemetry solution. 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 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.

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### (3) RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." SFAS No. 141 addresses financial accounting and reporting for business

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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 for acquisitions initiated subsequent to June 30, 2001. Accordingly, the Company's purchase of Software Support Team, Inc. ("Software Support Team") on October 2, 2001 was accounted for under the provisions of SFAS No. 141.

In June 2001, the FASB 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 in October 2001, the Company recognized goodwill in the amount of \$304,000. The Company adopted certain provisions of SFAS 141 and SFAS 142 effective July 1, 2001, as required for goodwill and intangible assets acquired in purchase business combinations consummated after June 30, 2001. The Company adopted the remaining provisions of SFAS 141 and SFAS 142 effective January 1, 2002. There was not a cumulative transition adjustment upon adoption as of July 1, 2001 or January 1, 2002. SFAS 141 and SFAS 142 required the Company to perform the following as of January 1, 2002: (i) review goodwill and intangible assets for possible reclasses; (ii) reassess the lives of intangible assets; and (iii) perform a transitional goodwill impairment test. The Company has reviewed the balances of goodwill and identifiable intangibles and determined that the Company does not have any amounts that are required to be reclassified from goodwill to identifiable intangibles, or vice versa. The Company has also reviewed the useful lives of its identifiable intangible assets and determined that the original estimated lives remain appropriate. The Company has completed the transitional goodwill impairment test and has determined that the Company did not have a transitional impairment of goodwill. The Company completed the sale of Software Support Team during August 2002, which included the disposal of goodwill.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method over its useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not believe the adoption of SFAS No. 143 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, with early application encouraged. The Company reviews long-lived assets for impairment in accordance with SFAS 144. For the nine months ended September 30, 2002, Marex recognized \$469,000 of impairment of long-lived assets related to assets that will no longer be utilized or that were sold at below net book value due to decreases in human resources and operations and is charged to expense in the accompanying unaudited condensed consolidated statements of operations as "Impairment of long-lived assets."

In April 2002, the FASB issued SFAS No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." This statement, among other things, eliminates an inconsistency between required accounting for certain sale-leaseback transactions and provides for other technical corrections. Management believes the adoption of this statement will not have a material effect on its financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3. The statement is effective for exit or disposal costs initiated after December 31, 2002, with early application encouraged. This statement has not yet been adopted by the Company and management has not determined the impact of this statement on the financial position, results of operations or cash flows.

#### (4) 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. During August 2002, the Company, pursuant to the approval of the Company's shareholders, effectuated a one-for-ten reverse stock split. The common stock and net loss per share information has been retroactively adjusted in all periods presented to reflect the one-for-ten reverse stock split. 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, post split, at September 30, 2002 and 2001 that were excluded from the diluted earnings per share calculation was approximately 558,000 and 600,000, respectively.

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### (5) SOFTWARE DEVELOPMENT COSTS

The Company follows SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and Emerging Issues Task Force ("EITF") Issue No. 00-02, "Accounting for Web Site Development Costs," for the accounting of development costs. During the nine

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months ended September 30, 2002 and 2001, the Company capitalized approximately \$265,000 and \$747,000, respectively, of development costs associated with development of its software products.

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

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 \$117,000 for the nine months ended September 30, 2002, and \$120,000 and \$356,000, respectively, for the three months and nine months ended September 30, 2001. For the three months ended September 30, 2002, no compensation expense was recognized as the director resigned. The compensation expense is included in the unaudited condensed consolidated statements of operations as "Stock-based compensation."

For the nine months ended September 30, 2002, the Company issued to various employees and directors options to acquire 250,000 shares, post split, of Common Stock at an exercise price of \$3.30 per share, post split. The options vest through June 2006 and expire through June 2007. During the same period, 172,000 options, post split, were cancelled and 93,000 options, post split, expired.

### (7) 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.

### (8) 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 the nine

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months ended September 30, 2002, 35,000 shares of Series A1 Preferred Stock were converted into 26,923 shares, post split, of Common Stock.

Each share of the Series A1 Preferred Stock is convertible into 0.769 shares, post split, 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

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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.

### (9) WARRANTS

During the fourth quarter of 2001, the Company terminated the Strategic Relationship Agreement (the "Strategic Relationship Agreement") and the Warrant Agreement (the "Warrant Agreement") it had entered into with Genmar Holdings, Inc. ("Genmar"). The Strategic Relationship Agreement provided that Genmar would utilize the Company as its exclusive provider of an online procurement system. Pursuant to the Warrant Agreement, the Company issued to Genmar, on April 26, 2000 and April 26, 2001, warrants to purchase 1,442,081 and 1,495,256 shares,

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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 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 warrants issued on April 26, 2001 was \$1.8 million. No warrants were issued or vested during 2002. 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."

### (10) SEGMENT INFORMATION

Through August 31, 2002, the Company operated two primary business segments for internal management reporting purposes: electronic commerce products and management information solutions software products. The Company sold its assets related to its management information solutions software products segment on August 31, 2002. The sale price was approximately \$1.7 million, consisting of \$279,000 in net cash received, \$1.1 million in the assumption of the seller financed note payable and \$325,000 in the assumption of operating liabilities. The related loss from operations and loss on disposal are reflected in the Discontinued Operations section of the Condensed Consolidated Statements of Operations. The assets sold and liabilities assumed were removed from the Condensed Consolidated Balance Sheet as of August 31, 2002. Electronic commerce products consist of our internally developed procurement and telemetry solutions. Management information solution software products consisted of

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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 for the nine months ended September 30, 2002 is as follows:

|                             | Management<br>Information<br>Solutions<br>----- | Electronic Commerce*<br>----- | To<br>----- |
|-----------------------------|---|-------------------------------|-------------|
| Net sales                   | \$ 1,255,185                                    | \$ 15,025                     | \$ 1,2      |
|                             | =====   | =====                         | =====       |
| Costs and expenses          | \$ 1,864,099                                    | \$ 4,527,886                  | \$ 6,3      |
|                             | =====   | =====                         | =====       |
| Interest income             | \$ 4,005  | \$ 50,709                     | \$          |
|                             | =====   | =====                         | =====       |
| Interest expense            | \$ 2,131  | \$ 43,142                     | \$          |
|                             | =====   | =====                         | =====       |
| Net loss                    | \$ (741,446)                                    | \$ (4,412,937)                | \$ (5,1     |
|                             | =====   | =====                         | =====       |
| Total assets at quarter end | \$ --   | \$ 1,883,374                  | \$ 1,8      |
|                             | =====   | =====                         | =====       |

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|                                  |       |    |       |         |       |   |
|----------------------------------|-------|----|-------|---------|-------|---|
| Long-lived assets at quarter end | \$    | -- | \$    | 825,836 | \$    | 8 |
|                                  | ===== |    | ===== |         | ===== |   |

\*Certain corporate overhead and assets are included within the electronic commerce segment for reporting purposes.

For the nine months ended September 30, 2001, the Company operated solely in the electronic commerce operating segment and one customer accounted for approximately 54% of total revenues of this segment. During the fourth quarter of 2001, the agreement with this customer was terminated. For the nine months ended September 30, 2002, the Company did not have a major customer.

(11) RELATED PARTY TRANSACTIONS

During 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% and matures on December 31, 2002. The loan is included in the unaudited condensed consolidated balance sheets as "Loan to related party."

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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, 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 have available for the markets we serve two products which include: an e-commerce solution which enables the electronic exchange of business documents and product information and a telemetry product which is capable of tracking assets from a remote location.

We have 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.

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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.

We have developed a telemetry solution ("Telemetry") for the marine and transportation industries. Telemetry is designed to enable the remote tracking of assets from virtually any location in the world by using our MarConnect Suite.

### DISCONTINUED OPERATIONS

On August 31, 2002, our Board of Directors approved an Asset Purchase Agreement for the sale of the assets of Software Support Team, Inc. ("Software Support Team"). Software Support Team engaged in the business of developing management information solution software for retailers, distributors and dealers. The estimated loss on the disposal of the assets of Software Support Team was \$134,000 and the loss from discontinued operations for the nine months ended September 30, 2002 was \$607,000.

The financial information in "Management's Discussion and Analysis of Financial Condition and Results of Operations" refers to our continuing operations and excludes the operations of Software Support Team.

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### CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed 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 us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our 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 our Form 10-K for the year ended December 31, 2001. We believe our most critical accounting policies include software and website development costs and revenue recognition.

We follow 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. We evaluate 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

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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.

We follow 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. We licensed software under noncancellable license agreements.

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

The MarConnect Suite generates revenues by charging a monthly subscription fee. 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.

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### RESULTS OF OPERATIONS

#### COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

##### REVENUES

For the three months ended September 30, 2002, we did not record revenues compared to \$93,000 during the same period in 2001. The decrease was related to the Company's current strategy being focused on the marketing of Telemetry.

The MarConnect Suite generates revenues by charging a monthly subscription fee. For the three months ended September 30, 2002, we did not record any revenues from the MarConnect Suite as our sales focus concentrated on Telemetry. For the three months ended September 30, 2001, we did not record revenues related to the MarConnect Suite as it was completed in the first quarter of 2002. MarExpress! and MarexPO! generated revenues by charging a transaction fee based on the gross transaction price of items purchased and sold through the system. The fees were recognized as revenue when customers' right to receive a refund expired. For the three months ended September 30, 2001, we recorded revenues of \$93,000 generated from \$7.9 million of transactions. MarExpress! and MarexPO! did not generate revenues during the three months ended September 30, 2002 as they were discontinued during the fourth quarter of 2001.

##### 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

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operations and enhancements of our products. Product support and development expenses decreased to \$205,000 for the three months ended September 30, 2002, compared to \$1.2 million for the same period in 2001. The change related primarily to decreases of \$350,000 in personnel and personnel related costs, \$438,000 in depreciation expense, and \$86,000 in outside contractor costs. The balance was comprised of decreases in overhead and operating costs directly associated with the development and maintenance of our 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 \$9,000 for the three months ended September 30, 2002, compared to \$711,000 for the same period in 2001. The change is primarily due to decreases of \$439,000 in personnel and personnel related costs and \$22,000 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 \$112,000 for the three months ended September 30, 2002, compared to \$770,000 for the same period in 2001. The change related primarily to decreases of \$248,000 in personnel and personnel related costs and \$252,000 in professional fees. The balance was comprised of corporate charges directly associated with our administrative functions.

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### IMPAIRMENT OF SOFTWARE DEVELOPMENT COSTS

For the three months ended September 30, 2001, we recorded an impairment of software development costs of \$6.7 million related to the development of MarConnect, which replaced MarExpress! and MarexPO!.

### STOCK-BASED COMPENSATION

For the three months ended September 30, 2001, we recorded a non-cash compensation expense of \$120,000 relating to the vested portion of stock options granted to a director. We did not record non-cash compensation expense for the three months ended September 30, 2002 as the director resigned.

### OTHER INCOME AND EXPENSE

We recorded \$17,000 of interest income for the three months ended September 30, 2002, compared to \$80,000 for the three months ended September 30, 2001. The decrease was a result of lower balances of marketable securities. We did not have interest expense for the three months ended September 30, 2002 compared to \$9,000 for the three months ended September 30, 2001. The decrease was primarily due to the return of assets under capital lease obligations.

### LOSS FROM CONTINUING OPERATIONS

Our loss from continuing operations decreased to \$223,000 for the three months



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ended September 30, 2002, compared to \$9.3 million for the three months ended September 30, 2001. The change resulted from decreases in the impairment of software development costs and decreases in other costs, as described above.

### COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

#### REVENUES

For the nine months ended September 30, 2002, we recorded revenues of \$15,000 compared to \$246,000 during the same period in 2001. The decrease was related to the Company's current strategy being focused on the marketing of Telemetry.

The MarConnect Suite generates revenues by charging a monthly subscription fee. For the nine months ended September 30, 2002, we recorded revenues of \$15,000 related to the MarConnect Suite. For the nine months ended September 30, 2001, we did not record revenues related to the MarConnect Suite as it was completed in the first quarter of 2002. MarExpress! and MarexPO! generated revenues by charging a transaction fee based on the gross transaction price of items purchased and sold through the system. The fees were recognized as revenue when customers' right to receive a refund expired. For the nine months ended September 30, 2001, we recorded revenues of \$246,000 generated from \$16.7 million of transactions. MarExpress! and MarexPO! did not generate revenues during the nine months ended September 30, 2002 as they were discontinued during the fourth quarter of 2001.

#### 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 our products. Product support and development expenses decreased to \$1.4 million for the nine months ended September 30, 2002, compared to \$4.9 million for the same period in 2001. The change related primarily to decreases of \$577,000 in depreciation expense, \$901,000 in amortization expense, \$1.1 million in personnel and

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personnel related costs, \$408,000 in software support, and \$399,000 in outside contractor costs. The balance was comprised of decreases in overhead and operating costs directly associated with the development and maintenance of our 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 \$660,000 for the nine months ended September 30, 2002, compared to \$2.8 million for the same period in 2001. The change is primarily due to decreases of \$1.2 million in personnel and personnel related costs, \$234,000 in outside contractor costs, and \$313,000 in marketing 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 \$1.9 million for the nine months ended September 30, 2002, compared to \$2.3 million

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for the same period in 2001. The change related primarily to a decrease of \$265,000 in personnel and personnel related costs. The balance was comprised of corporate charges directly associated with our administrative functions.

### IMPAIRMENT OF SOFTWARE DEVELOPMENT COSTS

For the nine months ended September 30, 2001, we recorded an impairment of software development costs of \$6.7 million related to the development of MarConnect, which replaced MarExpress! and MarexPO!.

### IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets of \$469,000 was recognized for the nine months ended September 30, 2002. The impairment was related to assets that will no longer be utilized or that were sold at below net book value due to decreases in human resources and operations.

### STOCK-BASED COMPENSATION

Stock-based compensation resulting from stock options granted to a director decreased to \$117,000 for the nine months ended September 30, 2002, compared to \$356,000 for the same period in 2001. The decrease resulted from the resignation of the director.

### FAIR VALUE OF WARRANTS

For the nine months ended September 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. The warrants became fully vested during the second quarter of 2001.

### OTHER INCOME AND EXPENSE

We recorded \$51,000 of interest income for the nine months ended September 30, 2002, compared to \$433,000 for the nine months ended September 30, 2001. The decrease was a result of lower balances of marketable securities. Interest expense for the nine months ended September 30, 2002 was \$43,000, compared to \$26,000 for the nine months ended September 30, 2001. The increase was primarily due to the seller-financed note payable related to the acquisition of Software Support Team, which was partially

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offset by the decrease related to the return of assets under capital lease obligations.

### LOSS FROM CONTINUING OPERATIONS

Our loss from continuing operations decreased to \$4.4 million for the nine months ended September 30, 2002, from \$18.1 million for the nine months ended September 30, 2001. The change resulted from decreases in the fair value of warrants issued, decreases in the impairment of software development costs and decreases in other costs, as described above.

### LIQUIDITY AND CAPITAL RESOURCES

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

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Net cash used in operating activities was \$3.5 million for the nine months ended September 30, 2002, primarily as a result of a net loss of \$5.2 million and a decrease of \$829,000 in accounts payable and accrued expenses. The net loss and decrease in accounts payable and accrued expenses were partially offset by amortization expense of \$780,000, depreciation expense of \$584,000, impairment of long-lived assets of \$469,000, provision for doubtful accounts of \$161,000, loss on disposal of subsidiary assets of \$134,000, decrease in deposits of \$150,000 and a non-cash charge of \$117,000 for stock-based compensation.

Net cash used in investing activities was \$23,000 for the nine months ended September 30, 2002, primarily due to \$265,000 of software development costs related to the development of our solutions and \$36,000 of purchases of property and equipment. The software development costs and purchases of property and equipment were partially offset by proceeds of \$279,000 from the sale of the assets of Software Support Team.

Net cash used in financing activities was \$454,000 for the nine months ended September 30, 2002, primarily due to \$337,000 of principal payments on the seller-financed note payable and \$116,000 of principal payments related to capital lease obligations.

At September 30, 2002, cash and cash equivalents totaled \$479,000, while our working capital was \$683,000. In comparison, as of December 31, 2001, cash and cash equivalents totaled \$4.5 million, while our working capital was \$3.0 million. To date, our primary uses of cash have been in operating activities to fund the development and promotion of our products.

We currently anticipate that our available funds will be sufficient to meet our projected working capital and operating resource requirements into the first quarter of 2003 since we significantly decreased our staff and shifted our focus to Telemetry. 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 PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 for acquisitions initiated subsequent to June 30, 2001.

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Accordingly, the Company's purchase of Software Support Team, Inc. ("Software Support Team") on October 2, 2001 was accounted for under the provisions of SFAS No. 141.

In June 2001, the FASB 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, we recognized goodwill in the amount of \$304,000. We adopted certain provisions of SFAS 141 and SFAS 142 effective July 1, 2001, as required for goodwill and intangible assets acquired in purchase business combinations consummated after June 30, 2001. We adopted the remaining provisions of SFAS 141 and SFAS 142 effective January 1, 2002. There was not a cumulative transition adjustment upon adoption as of July 1, 2001 or January 1, 2002. SFAS 141 and SFAS 142 required us to perform the following as of January 1, 2002: (i) review goodwill and intangible assets for possible reclasses; (ii) reassess the lives of intangible assets; and (iii) perform a transitional goodwill impairment test. We have reviewed the balances of goodwill and identifiable intangibles and determined that we do not have any amounts that are required to be reclassified from goodwill to identifiable intangibles, or vice versa. We have also reviewed the useful lives of our identifiable intangible assets and determined that the original estimated lives remain appropriate. We have completed the transitional goodwill impairment test and have determined that we did not have a transitional impairment of goodwill. The Company completed the sale of Software Support Team during August 2002. Therefore, no goodwill is recognized at September 30, 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method over its useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We do not believe the adoption of SFAS No. 143 will have a material effect on our 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, with early application encouraged. We review long-lived assets for impairment in accordance with SFAS 144. For the nine months ended September 30, 2002, we recognized \$469,000 of impairment of long-lived assets related to assets that will no longer be utilized or that were sold at below net book value due to decreases in human resources and operations and is charged to expense in the accompanying unaudited condensed consolidated statements of operations as "Impairment of long-lived assets."

In April 2002, the FASB issued SFAS No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." This statement, among other things, eliminates an inconsistency between required accounting for certain sale-leaseback transactions and provides for other technical corrections. Management believes the adoption of this statement will not have a material effect on its financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3. The statement is effective for exit or disposal costs initiated after December 31, 2002, with early application encouraged. We have not yet adopted this statement and management has not determined the impact of this statement on the financial position, results of operations or cash flows.

#### RISK FACTORS

The following risk factors, together with all information in this Form 10-Q, 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 our 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

We were founded in 1992 but did not launch our 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 NET LOSSES

We have incurred net losses in each period since our inception. We have 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 \$5.2 million for the nine

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months ended September 30, 2002. 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.

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

We are currently marketing orders for Telemetry. Accordingly, our core solution has a limited market history. If Telemetry does 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 future. We may face competition from other companies with telemetry 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 our 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 markets for our solutions are 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 our 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 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-commerce solution, which was our largest customer. During 2001, the agreement was terminated. During April 2002, we shifted our strategic focus from e-commerce solutions to Telemetry. Accordingly, we do not expect revenues from our e-commerce solutions to be a significant part of our future gross revenues.

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### 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

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take advantage of the markets for telemetry and management information solutions in 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 a number of factors, some which are beyond our control, including the following: our Common Stock is thinly traded; 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 technology 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 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 Miami, Florida. 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

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We currently anticipate that our available funds will be sufficient to meet our projected working capital and operating resource requirements into the first quarter of 2003 since we significantly decreased our staff and, during April 2002, shifted our focus from our electronic commerce solutions to Telemetry. 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 on acceptable terms or at all.

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### 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.

### 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.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK



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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 September 30, 2002.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Not applicable.

#### 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 July 24, 2002, the Company held a special shareholder meeting in Miami, Florida. The matter voted upon and its result were as follows:

##### PROPOSAL 1

To amend Marex, Inc.'s Articles of Incorporation to effectuate a one-for-ten reverse stock split.

Proposal 1 was approved based on the following voting results:

| For       | Against | Abstain |
|-----------|---------|---------|
| -----     | -----   | -----   |
| 5,283,960 | 16,530  | 11,350  |

#### 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) |

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- 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)
  - 10.6 -- Asset Purchase Agreement among Marex, Inc., Software Support Team, Inc., and Exuma Technologies, Inc., dated August 31, 2002 (7)
  - 99.1 -- Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 14, 2002 (8)
- (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 23, 2001.
  - (6) Previously filed as an exhibit to the Company's Form 8-K filed on October 16, 2001.
  - (7) Previously filed as an exhibit to the Company's Form 8-k filed on September 13, 2002.
  - (8) Filed herewith
- (b) Reports on Form 8-K

On September 13, 2002, the Company filed a report on Form 8-K which announced that the Company, upon the approval of its Board of Directors, entered into an Asset Purchase Agreement to sell all of the assets related to the operations of Software Support Team, Inc.

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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.

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November 14, 2002

By: /s/ DAVID A. SCHWEDEL

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David A. Schwedel  
President and Chief Executive Officer