

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

NOVEX SYSTEMS INTERNATIONAL INC
Form 10KSB/A
December 23, 2003

FORM 10-KSB/A

UNITED STATE
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MAY 31, 2003.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

NOVEX SYSTEMS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

New York 0-26112 41-1759882
(State of Jurisdiction) (Commission File Number) (IRS Employer ID No.)

16 Cherry Street Clifton, New Jersey 07014
(Address of Principal Executive offices) (Zip Code)

Registrant's telephone number, including area code 973-777-2307

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock \$.001 par value	OTC Electronic Bulletin Board

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 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 filing requirements for the past 90 days. Yes No

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

Based on the closing sale price of \$.01 on May 31, 2003, the aggregate market value of the voting stock held by nonaffiliates of the registrant was approximately \$250,000. The company had 26,245,187 shares of its \$.001 par value common stock and 1,390,388 shares of its \$.001 par value preferred stock issued and outstanding on May 31, 2003. Effective September 3, 2003 all preferred shares were canceled and 1,000,000 shares of common stock were canceled.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-K -----	Incorporated Document -----
None	

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

NOVEX SYSTEMS INTERNATIONAL, INC.

Table of Contents

	Page No. -----
Part I	
Item 1. Business and Risk Factors	1
Item 2. Properties	11
Item 3. Legal Proceedings	11
Item 4. Submission of Matters to a Vote of Security Holders	12
Part II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	12
Item 6. Selected Financial Data	13
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 8. Financial Statements and Supplementary Data	17
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	18
Part III	
Item 10. Directors and Executive Officers of the Registrant	18
Item 11. Executive Compensation	19
Item 12. Security Ownership of Certain Beneficial Owners and Management	20
Item 13. Certain Relationships and Related Transactions	22
Part IV	
Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	23

ii

PART I

Item 1. Business and Risk Factors

Novex Systems International, Inc. (hereinafter "Novex") will be subject to numerous and substantial economic, operational and other risks which should be carefully evaluated. For a more detailed discussion of the risk factors involved

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

in the investment being offered in this offering, see the following Risk Factors.

RISK FACTORS

Novex evolved from the development stage in mid-1998 and any evaluation of the Company and its business should only be made after having given careful consideration to the following risk factors, in addition to those appearing elsewhere in this Form 10-KSB

Novex has had losses and may not be able to achieve profitability. Novex has recorded net losses for each year of operation. In addition, a significant portion of Novex's assets are attributable to goodwill. Management will periodically review the recoverability of goodwill to determine if it has been impaired. Events that may cause an impairment would be Novex's future intentions regarding its operations and the operations forecasted undiscounted cash flows. Any reduction in the value of goodwill would be to the extent that the present value of the expected future cash flows are less than the carrying amount of goodwill. This analysis may result in a complete or partial write-off or acceleration of the amortization period. A write-down of part or all of the goodwill will negatively impact Novex's operating results. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and "Consolidated Financial Statements and Notes."

If Novex cannot reach a final settlement agreement with its former bank it will have to file a voluntary petition for bankruptcy to protect the ownership of its intellectual property from a judgment. Novex's former bank, Dime Commercial Corp., (hereinafter "Dime") has secured a judgment in April, 2003 for \$1,336,000 and it has taken actions to satisfy this judgment. As part of a resolution of the litigation, Novex conveyed ownership of its former manufacturing facility to Dime, including all equipment located at the property. Novex believes that the fair market value of these assets, at the very least, exceeds the judgment and therefore Dime shall have no further right to execute the judgment against Novex's remaining assets which are the intangible assets it owns and needs to own to continue the licensing arrangement it entered in February, 2003 (hereinafter "Licensing Agreement" as defined below). While Dime and Novex have entered into a written agreement prohibiting Dime from executing its judgment against Novex's intangible assets as of this filing, unless the parties reach a final settlement agreement or extend the stay of execution Novex will be forced to file a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code to protect its intangible assets from an execution of the judgment. See "Business", "Management's Discussion and Analysis of Condition and Results of Operations" and "Financial Statements and Notes."

Because Novex has no patent protection for its product formulae, its competitors could copy its products and market them under another name which could decrease Novex's revenues and hamper its ability to achieve profitability. Since the formulae would become public knowledge if Novex were to obtain patent protection, Novex has chosen not to obtain patents on any of its proprietary technology. Therefore, the absence of patent protection represents a risk in that Novex will not be able to prevent other persons from developing competitive products. If Novex's competitors were to learn of the secret formulae for

making its products, they could easily duplicate the products and offer them to Novex's customers without any suggestion of patent infringement. As a result, Novex's revenues would decline and its ability to achieve profitability would be hampered.

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Novex has only one executive officer who performs multiple functions and may not be able to handle all financial and executive responsibilities required. Novex relies considerably on the services of its president and chief executive officer, who is the company's only executive officer and is now handling all sales and marketing functions in conjunction with Novex's licensee. On February 1, 2003, Novex entered into an exclusive licensing deal with CGM, Inc., a privately-held manufacturer and marketer of building materials (hereinafter "Licensee") whereby all products sold under the trade names owned by Novex are produced and shipped by CGM and a royalty is paid to Novex ("Licensing Agreement"). To the extent that the services of Novex's current president become unavailable, it would be very difficult to attract or retain personnel who would be able to adequately perform the functions currently performed by Novex's president, which would impair the company's ability to continue its operations until a replacement is hired. See "Management".

Because our stock is presently considered to be a "penny stock", the applicability of "Penny Stock Rules" could make it difficult for investors to sell their shares in the future in the secondary trading market. Federal regulations under the Exchange Act regulate the trading of so-called "penny stocks" (the "Penny Stock Rules"), which are generally defined as any security not listed on a national securities exchange or NASDAQ, priced at less than \$5.00 per share, and offered by an issuer with limited net tangible assets and revenues. In addition, equity securities listed on NASDAQ that are priced at less than \$5.00 per share are deemed penny stocks for the limited purpose of Section 15(b)(6) of the Exchange Act. Therefore, during the time which the common stock is quoted on the NASDAQ OTC Bulletin Board at a price below \$5.00 per share, trading of the common stock will be subject to the full range of the Penny Stock Rules. Under these rules, broker dealers must take certain steps prior to selling a "penny stock," which steps include: (i) obtaining financial and investment information from the investor; (ii) obtaining a written suitability questionnaire and purchase agreement signed by the investor; and (iii) providing the investor a written identification of the shares being offered and in what quantity. If the Penny Stock Rules are not followed by the broker-dealer, the investor has no obligation to purchase the shares. Accordingly, the application of the comprehensive Penny Stock Rules may be more difficult for broker-dealers to sell the common stock, and purchasers of the shares of common stock offered hereby may have difficulty in selling their shares in the future in the secondary trading market.

If a trading market is not maintained, holders of the common stock may experience difficulty in reselling such Common Shares or may be unable to resell them at all. The Common Shares of the Company are presently quoted on the NASDAQ Over-The-Counter (OTC) Bulletin Board, a regulated quotation service that captures and displays real-time quotes and indications of interest in securities not listed on The NASDAQ Stock Market, or any U.S. securities exchange. The current trading ticker symbol for the Common Shares is "HARD". The Company may, but has not, entered into any agreements with market makers to make a market in the Company's Common Stock. In addition, any such market making activity would be subject to the limits imposed by the Securities Act, and the Securities Exchange Act of 1934, as amended, ("Exchange Act") and it is possible that the market in the common stock can be discontinued at any time. Accordingly, if there is no active market available for the common shares, no liquidity or if the market is discontinued, holders of the common stock may have difficulty or may be unable to sell the shares which he or she may hold.

Certain information included in this Form 10-KSB contain statements that are forward-looking, such as statements relating to future anticipated direction of Novex, plans for expansion, corporate acquisitions, anticipated sales growth and

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

capital funding sources. Such forward-looking information involves risks and uncertainties that could significantly affect anticipated results in the future, and accordingly, such results may even materially differ from those expressed in any forward-looking statements made by or on behalf of Novex.

BUSINESS

a. General Business Development

Novex is a corporation formed under the laws of New York and has its principal place of business and executive offices located at 16 Cherry Street, Clifton, New Jersey 07014, telephone 973- 777-2307.

Pursuant to the Licensing Agreement (defined above) Novex's currently operates as a licensing entity that collects monthly royalty payments from its Licensee that are derived from sales of building materials that bear Novex's trade names. The royalties are paid monthly by the Licensee based on sales of goods made one month from the payment date. For instance, the royalty for sales of goods in August will be paid on October 1st. The royalty agreement provides for a fixed licensing fee for each account. Novex continues to provide marketing and sales support to the Licensee.

In addition, management believes that Novex's publicly-traded status and its net operating loss carryforward would be attractive to a privately-held company that is interested in becoming public by way of a reverse merger into an existing public company. Novex periodically reviews unsolicited requests to merge with an operating company and its president actively seeks potential businesses that would merit a merger with Novex to utilize its public-status.

Until May 11, 1999, Novex was known as Stratford Acquisition Corp. and had been a corporation organized under the laws of Minnesota. Effective May 11, 1999, Stratford merged into its wholly-owned subsidiary, Novex Systems International, Inc., a newly-formed New York corporation, which was the surviving corporation. The purpose of the merger was to "redomesticate" the company from the state of Minnesota where it had virtually no business activity, to the State of New York where the company had its corporate headquarters. As a result, the Minnesota company essentially dissolved into and became a part of the surviving entity, Novex.

Novex also had a wholly-owned operating subsidiary, Novex Systems International, Ltd. (formerly known as Novacrete Technology (Canada) Inc.), which is a company registered under the laws of the Province of Ontario, Canada and is located at 2525 Tedlo Street, Unit B, Mississauga, Ontario L5A 4A8, telephone 905-566-0716 ("Novex Canada"). The operations of Novex Canada were discontinued in October, 2001 and the entity is now dormant.

In September 1998, Novex's wholly-owned subsidiary, Novex Canada purchased all of the issued and outstanding common stock of ARM PRO Inc. ("ARM PRO"), located in Ontario, Canada. The funds used to purchase ARM PRO were derived from Novex's sale of a 9% \$800,000 (U.S.) debenture due to mature on September 4, 2000 and which included a warrant to purchase 1,500,000 shares of Novex's common stock at an exercise price of \$.45 per share. The warrant expired on September 4, 2000. Since 1986, ARM PRO has manufactured and marketed the trademarked FIBERFORCE line of polypropylene fibers. Polypropylene fibers are blended into cementitious products to provide secondary reinforcement and reduce cracking. Novex Canada was discontinued after it had sold its fiber manufacturing business

to Interstar Admixture Co. and its cement product operation to QEP/Roberts, Ltd.

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Novex retained the exclusive right to the Fiberforce brand name for use in the consumer sector for building materials.

On August 13, 1999, Novex acquired the Allied Composition/Por-Rok business unit from The Sherwin-Williams Company ("Por-Rok"). Por-Rok manufactures a well-known line of grouting and concrete patching products that are distributed nationally. The purchase price for the Por-Rok acquisition was \$2.1 million and was paid for in part from the funds derived from a secured term loan from Dime Commercial Corp. in the amount of \$890,000. In exchange for the line of credit from Dime, Novex was required to issue to Dime a warrant to purchase 233,365 shares of Novex's common stock, which expired unexercised on August 13, 2002. The balance of the purchase price was provided by The Sherwin-Williams Company in exchange for which Novex issued a 10% secured promissory note in the amount of \$1.3 million and 1 million shares of Novex's common stock.

On August 7, 2000, Novex and The Sherwin-Williams Company entered into an agreement whereby, Sherwin-Williams agreed to convert the entire principal amount of its outstanding note having a face value of \$1,281,351, plus all accrued and outstanding interest of \$109,037 into 1,390,388 shares of Series A Redeemable Convertible Preferred Stock ("Preferred Stock"). The Series A Redeemable Preferred Stock pays an annual dividend of 139,038 shares of Preferred Stock for two consecutive years and if the Preferred Stock is not redeemed prior to August 7, 2002, an additional 208,558 shares of Preferred Stock shall be issued to Sherwin-Williams. If on August 7, 2002, any of the Preferred Stock that has not been redeemed shall be converted into common stock at a rate equal to 85% of the Novex' average closing trading price for Novex' \$.001 par value common stock for twenty consecutive trading days prior to August 7, 2002. On September 3, 2003 Sherwin-Williams tendered certificates representing all shares of preferred and common stock that it owned for cancellation. See Subsequent Events.

On August 1, 2000, Novex acquired substantially all of the assets of the The Sta-Dri Company located in Odenton, Maryland ("Sta-Dri"). Sta-Dri manufactured a well-known line of waterproofing and building material products that have been in existence for over 40 years. Upon purchasing the Sta- Dri assets, Novex relocated the manufacturing processes, marketing and administration of the Sta-Dri products into its Clifton, New Jersey facility. The purchase price for the Sta-Dri acquisition was 1,000,000 shares of Novex' common stock that was valued at \$137,000 based on the average trading price three days before and after the date the acquisition was agreed to and announced, which was August 1, 2000. As of August 1, 2001 and until August 1, 2002, Novex will had to pay an additional \$6,000 each month in the aggregate to the Sta-Dri shareholders in the event that the common stock of the Company has not traded above \$1.00 per share for twenty consecutive trading days prior to August 1, 2001. If and when Novex common stock shall trade in excess of \$1.00 per share for twenty consecutive trading days the \$6,000 monthly obligation shall terminate. Sta-Dri shareholders have received a judgment against Novex in the amount of \$95,000 for unpaid royalties that stemmed from Novex's cash flow problems and its litigation with Dime.

b. Financial Information About Industry Segments

All assets, revenues and operating expenses are dedicated to one business segment -- the marketing of building materials. Accordingly, Novex accounts for its business operations within one industry, i.e. the building materials industry.

Based upon its current operations and its operating activity for the past three fiscal years, Novex believes that its financial information is adequately presented in its audited financial statements and is cross-referenced in this Form 10-KSB to Novex's consolidated balance sheet and consolidated statement

of operations appearing on pages F-3 and F-4, respectively.

c. Subsequent Events

On July 17, 2003, Novex conveyed ownership of its real property and industrial equipment located at its real property to its Dime. With this transfer of assets, Novex believes it has satisfied the judgment Dime has for \$1,336,000. Dime has not agreed with this position, but has agreed to stay any execution of the judgment against Novex's intangible assets until October 15, 2003 to enable the parties to work toward a final settlement of all litigation. In the event the parties cannot settle the litigation and Dime refuses to extend the stay of execution Novex will need to file a petition in bankruptcy to protect its intangible assets from being executed upon.

On September 3, 2003, Sherwin-Williams surrendered all its Preferred Stock and the 1,000,000 shares of common stock it owned to Novex for cancellation.

d. Novex's Current Business Operation

Novex is engaged in the business of marketing premium building product materials through the Licensing Agreement. The first line of products are pre-packaged concrete repair and floor resurfacing products that are marketed to contractors directly and also to distributors of building material products under the tradenames Por-Rok and Dash Patch. The second line of products are masonry waterproofing products also marketed to contractors and distributors of building materials and paint products under the brand name Sta-Dri. The third line of products is a line of polypropylene concrete reinforcing fibers that are sold under the Fiberforce trade name. (See Description of Products).

Novex currently has its executive offices at 16 Cherry Street, Clifton, New Jersey 07014.

e. How Novex Markets Its Products

Novex markets all its products in conjunction with the sales and marketing staff of its Licensee. Most of these efforts involve direct contact with existing and new customers and periodic incentive based promotions to attract new sales.

f. Description of Novex' Products

As of the filing of this registration statement, the following is a list of the Por-Rok and Fiberforce products marketed by Novex:

POR-ROK PRODUCTS (A Line of Grouts and Patching Products)

POR-ROK Anchoring Cement - non-shrink expansion cement that requires only water at the job site to create a pourable, yet durable, anchoring, patching or grouting compound.

SUPER POR-ROK Exterior Anchoring Cement - non-shrink expansion cement for exterior applications that requires only water at the jobsite to create exceptionally high early strengths in the first three days from installation.

POR-ROK Halco Grout - contains expansive agents and flow enhancers to provide high strengths yet exceptional flowability for ease of application.

POR-ROK Aqua Plug - durable water resistant hydraulic cement which sets in 3-5 minutes. Designed to stop leaks or running water, patch cracks and fill holes in masonry surfaces. Can be used in interior and exterior surfaces and sets under water.

POR-ROK Concrete Patch - requires only mixing of water at jobsite, will level or smooth most concrete or masonry surfaces and can be used to repair and patch spalled concrete, cracks in masonry, broken steps and porches. Sets in 40-80 minutes and is stronger than ordinary concrete. Can be used in interior and exterior surfaces.

POR-ROK Dash Patch - powder-based product that when mixed with water bonds well to concrete, wood or plaster that is used to smooth surfaces before the placement of carpeting or wood floors. Fills cracks, ruts and score lines, strong bond adhesion and no shrinkage.

POR-ROK Super Dash Patch - powder-based product that when mixed with water bonds well to concrete, wood or plaster that is used to smooth surfaces before the placement of tile, carpeting or wood. Fills cracks, ruts and score lines, strong bond adhesion and no shrinkage.

POR-ROK Dash Flow - powder-based product that when mixed with water is used to self-level floors prior to the installation of new flooring products. This product is used primarily when old floors and being converted into flooring surfaces and in new construction when newly poured concrete is either not level or rough and requires a smoother surface.

POR-ROK Lev-L-Astic - used as an underlayment over concrete, wood, quarry tile, terrazzo, before installing asphalt or vinyl asbestos, tile, linoleum, and other types of floor surfaces. Eliminates the need for felt paper over wood surfaces, eliminates high spots on floor, improves bonding base to new tile and linoleum.

STA-DRI PRODUCTS

STA-DRI Waterproofing Paint (Powder form) - this product is a cement-based product that is mixed with water and can be applied to all types of interior and exterior masonry surfaces with a brush or roller to provide a waterproof surface.

STA-DRI Heavy-Duty Waterproofing Paint - this product is an oil-based redi-mixed product that can be applied with a brush or roller and required no addition of water. It can be used on interior and exterior masonry surfaces and can be tinted with different color additives.

STA-DRI Latex Waterproofing Paint - this product is a latex-based redi-mixed product that can be applied with a brush or roller and required no addition of water. It can be used on interior and exterior masonry surfaces and can be tinted with different color additives.

Sta-Dri All Purpose Sealer - Clear, colorless sealer for all masonry and wood surfaces. Can be used as a primer for most paint systems, and as a curing membrane for new concrete. The product is designed to protect surfaces against deterioration and weathering.

LINK Superbonding Agent - Liquid bonding agent that enhances the bond of most surface applied products to masonry. Can be used as a primer for hard-to-paint surfaces and when mixed with STA-DRI Waterproofing Paint (Powder form) it enhances the adhesion of this product, as it would for most paints and coatings.

STA-DRI Concrete Patch - acrylic resin fortified material that is mixed with water and used to patch all types of concrete surfaces: sidewalks, patios, driveways and walls.

STA-DRI Waterstop - quick-setting cement product that is mixed with water and can be used to plug holes in concrete surfaces even if and will water may be trickling through. The product hardens in 3-5 minutes and can be applied under water.

STA-DRI Anchoring Cement - fast-setting expanding cement that is mixed with water and used to anchor posts, railings, mailboxes, bolts, hooks and other devices that require a strong, permanent attachment to a wall or floor surface.

FIBERFORCE PRODUCTS - Fiberforce products are made from monofilament polypropylene fibers that are cut into specified lengths. Novex currently markets this product in 4 oz. bags.

g. Novex's Competitors

The principal methods of competition in our industry are price, service and the reliability of the product as demonstrated by performance. Each product offered by Novex currently has been on the market for at least 10 years and in some cases over 50 years. Because the products have been used for so long, they have achieved a level of market acceptance. It is very unlikely that someone would claim that Novex's Por-Rok, Sta-Dri or Fiberforce products don't work inasmuch as customers have been using them for years. Novex's prices are competitive with other like products and it does not aim to be the lowest nor the highest price on the market, but to be competitive. When it comes to competing with major manufacturers, Novex cannot offer the full range of products that they can so consequently it cannot offer volume price discounts to the extent larger competitors can. To remain competitive, Novex aims to provide customers with exceptional service and very favorable pricing and payment terms with respect to the product currently in our line.

As of the filing of this annual report, Novex competes with several other companies nationwide that manufacture and distribute construction products that are substantially similar to those manufactured and distributed by Novex. Until Novex can effect its business strategy, which will eliminate some competition, at least in certain markets, Novex believes the following companies will be its primary competitors.

Brand -----	Major Competitors -----
Por-Rok	Conspec
Anchoring Cement	Tamms
	Master Builders
	Quikcrete
	Sonneborn
	Sika
	W.R. Meadows
	ChemMasters
	Rockite
	UGL
	THORO
	Oldcastle

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

7

Super Por-Rok Exterior Anchoring Cement & Sta-Dri Anchoring Cement	(Same as above)
Por-Rok Aqua Plug & Sta-Dri Waterstop	(Same as above)
Por-Rok Concrete Patch & Sta-Dri Concrete Patch	(Same as above)
Por-Rok Halco Grout	Mapei Tamms
Por-Rok Lev-L-Astic	Mascrete Tamms Dependable Mapei Dap
Por-Rok Dash Patch & Super Dash Patch	Dependable Mascrete Tamms Armstrong QEP/Roberts
Por-Rok Dash Flow	Ardex Dependable Dayton-Richmond
Sta-Dri Waterproofing Paint (Powder)	Thoro UGL Quikcrete
Sta-Dri Waterproofing Paint (Latex)	Thoro UGL Quikcrete
Sta-Dri Waterproofing Paint (Oil)	Thoro UGL Quikcrete
Sta-Dri Sealer	Thompson
Link All Purpose Sealer	Thoro Quikcrete

8

Fiberforce Products Columbian Fiber

Some of Novex's competitors may be better capitalized, better financed, more established and more experienced than Novex and may offer products at lower prices or with greater sales incentives to its customers than Novex. Should Novex be unable to compete effectively, Novex's results of operations and

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

financial position would be materially and adversely affected.

h. Seasonality

Most of Novex's products are used in the maintenance of existing structures and have interior and exterior applications. Even in winter months a significant portion of construction and building maintenance continues, especially on interior projects where the company's products are used most. Although the high points of the construction season tends to be the busier period for sales, Novex does experience stable sales in the winter months.

i. Customer Dependence

Novex is not dependent upon any one customer nor does it anticipate becoming dependent upon one customer in the future. Its marketing strategy is to diversify its sales through major distributors that are located in various geographical areas and to a large number of construction professionals, such as engineers, architects, contractors, construction managers and end-users all of whom are involved in separate construction projects. The Por-Rok, Sta-Dri and Fiberforce products are sold to various distributors and retailers none of which account for more than 5% of the respective line of product sales.

j. Raw Materials

The raw materials used in manufacturing products using Novex's tradenames are readily available in the United States and Canada. The raw materials are purchased on an as needed basis and at market prices at the time of purchase. Novex does not anticipate that the prices and supplies of the raw materials will fluctuate substantially since the majority of the raw materials are commodity items such as sands and cement.

k. Intellectual Property Rights

Novex received a certificate of registration for the use of the trademark "Novacrete" from the Canadian Intellectual Property Office on June 15, 1997. The Certificate remains in effect until June 5, 2012 and can be renewed by Novex. On March 3, 1998, Novex received a Certificate of Trademark Registration No. 2,140,062 to use the trademark "Novacrete" in the United States. The term of the U.S. trademark registration is for ten years. With Novex's acquisitions of Por-Rok in August 1999 and Sta-Dri in August 2000, Novex acquired the registered trade names for all Por-Rok, Dash Patch and Sta-Dri products currently being produced.

Novex has not filed an application for a patent on its proprietary technology. The core technology that is used in each of Novex's products is not easily replicated. However, if patented the technology would ultimately become public information. Novex has developed internal controls to protect the confidentiality of its technology and does not believe that the lack of legal patent protection will impair its ability to effectively compete with other manufacturers of like products or cause Novex to incur unnecessary risk of loss of the technology. Even if Novex had patent protection over its

technology, it still assumes the risk that a competitor may misappropriate the technology and then its only recourse would be to commence costly and time consuming litigation. The existence or absence of a patent poses no commercial disadvantage to marketing Novex's products.

Novex has learned that other companies have been issued a trademark for

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

the name "Novex". We do not believe that our company will be injured by these uses of the name Novex nor do we consider our use of the name Novex to be an infringement upon any of these trademarks since these trademarks relate to companies, goods and services which are entirely distinguishable and unrelated to the construction products industry. Even if Novex were required to change its corporate name, this would not diminish our sales since our products are marketed under the brand names "Por-Rok" "Sta-Dri" and "Fiberforce". These product names are protected by registered trademarks in the United States, Canada and the United Kingdom.

l. Novex's Working Capital Requirements To Operate Its Business

For the fiscal year ended May 31, 2003, Novex experienced substantially less fluctuations in its working capital requirements to finance its operations due to it having entered into the Licensing Agreement Novex currently requires approximately \$20,000 to cover its fixed operating expenses before interest charges and it has no variable expenses.

m. No Backlog Orders

As of May 31, 2003, Novex did not have any backlog orders on account of its new business operation as a licensing company .

n. Government Contracts

Novex does not have any material contracts with the Government or any government agency and therefore does not have any exposure to these types of agreements.

o. Financial Information About Foreign and Domestic Operations and Export Sales.

Novex exports a small percentage of its annual sales to customers located outside of the United States. Whenever goods are sold outside of the United States the invoice is either paid in full prior to the shipment, or the goods are released upon confirmation of an irrevocable letter of credit. (See Note 16 Segment Information of Consolidated Financial Statements.)

p. Novex's Research and Development Activities

Novex currently markets products that have been widely accepted in the marketplace for building materials in both the commercial and consumer channels. Novex is not actively seeking to develop new innovative products, but to capitalize on sales of its existing products.

q. Environmental Compliance

Novex does not manufacture its products nor does it use raw materials in its products that are

10

deemed to be subject to rules or regulations relating to the discharge of certain materials into the environment. With the conveyance of its real property to Dime on July 17, 2003, Novex no longer has any exposure to environmental claims on the property, although in its best judgment it does not believe there are any environmental liabilities at the property.

r. Novex's Future Operations

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Novex's plan to combine its Licensee's sales and marketing staff with its own efforts to increase sales of products sold under Novex's tradenames and consequently its monthly royalty payments. Novex will also continue to assess the prospects of merging with an operating business to better utilize Novex's publicly-traded status.

s. Number of Employees

As of May 31, 2003, Novex, on a consolidated basis, employed three (3) full-time employees.

Item 2. Properties.

In November, 1999 Novex's principal executive offices were moved from 67 Wall Street, Suite 2001, New York, New York 10005, 212-825-9292 to 16 Cherry Street, Clifton, New Jersey 07014 973- 777-2307, which is the location of the offices and manufacturing operation that Novex acquired from The Sherwin-Williams Company in August 1999. This facility was conveyed to Dime on July 17, 2003 in satisfaction of a judgment Dime has received for unpaid. See, Subsequent Events, Legal Proceedings.

Until October, 2000, Novex's subsidiary, Novex Canada operated from a facility housing its executive offices and a 12,500 square foot manufacturing facility located at 2525 Tedlo Street, Unit B, Mississauga, Ontario, Canada L5A 4A8, 905-566-0716. This facility was closed in October 2000 upon the sale of the Fiberforce business.

Item 3. Legal Proceedings

In March, 2002, Dime commenced an action in foreclosure and a separate lawsuit to seeking payment on the two notes it issued to Novex. In April, 2003, Dime was awarded a judgment of \$1,336,000 and on July 17, 2003 it took title to Novex former real property and equipment. Novex believes the fair market value of these assets exceeds the amount of the judgment and it is therefore satisfied. Dime has extended its stay of execution of judgment until October 14, 2003 on consent with Novex to enable it to assess a final settlement offer made by Novex. Dime Commercial corp. v. Novex Systems International, Inc., Superior Court of New Jersey, Docket No. PAS-L-1577-2.

The former shareholders of the Sta-Dri company filed a lawsuit for unpaid royalty payments and received a judgment in the amount of \$95,000.

Other trade creditors have commenced lawsuits against Novex to secure payment on unsecured claims, however none of these judgment can be satisfied against Novex assets due to there being a properly perfected security interest in place with a financial creditor that is willing to work with the company.

On August 12, 1997, a shareholder who was once a director and officer of Novex ("the Plaintiff") commenced an action against Novex and its former president, Mr. A. Roy Macmillan, to enjoin Novex from taking any action that would restrict the sale of up to 300,000 shares of common stock that he allegedly owns and for the costs he will incur to conduct the lawsuit. He has not asked for, nor does Novex expect him to ask for, damages. The Plaintiff has since named Novex's current president, Mr. Dowe, in the lawsuit. The Plaintiff has no other affiliation with Novex other than for being a shareholder and the matter has been dormant for three years. Mel Greenspoon vs. Stratford Acquisition Corporation, et. al., Ontario Court (General Division), Index No. 97-CV-126814.

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Item 4. Submission of Matters to a Vote of Security Holders

During the fiscal year ended May 31, 2003, there were no proposals submitted to a vote of the shareholders.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Novex's common stock, \$.001 par value, is traded on the Over-the-Counter ("OTC") Bulletin Board operated by the National Association of Securities Dealers under the ticker symbol "HARD". The table below presents the high and low closing bid prices for each of the quarters of the fiscal years ending May 31, 2003 and May 31, 2002, respectively. The quotations reflect interdealer prices without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions. Novex's common stock became actively traded in July, 1995. On May 31, 2003, the closing bid price was \$.01. Novex has never paid a cash dividend and does not expect to change its dividend policy in the foreseeable future.

Quarterly Common Stock Bid Price Ranges

Quarter	High	Low	Last Day of Quarter
-----	----	---	-----
1st	\$.01	\$.01	August 31, 2002
2nd	\$.01	\$.01	November 30, 2002
3rd	\$.01	\$.01	February 28, 2003
4th	\$.01	\$.01	May 31, 2003
Quarter	High	Low	Last Day of Quarter
-----	----	---	-----
1st	\$.32	\$.31	August 31, 2001
2nd	\$.19	\$.17	November 30, 2001
3rd	\$.25	\$.15	February 28, 2002
4th	\$.28	\$.14	May 31, 2002

Novex may, but has not, entered into any agreements with market makers to make a market in Novex's common stock. In addition, any market making activity would be subject to the limits imposed by the Securities Act, and the Securities Exchange Act of 1934, as amended. For example, federal regulations under the Exchange Act regulate the trading of so-called "penny stocks" (the "Penny Stock Rules"), which are generally defined as any security not listed on a national securities exchange or NASDAQ, priced at less than \$5.00 per share, and offered by an issuer with limited net tangible assets

and revenues. In addition, equity securities listed on NASDAQ that are priced at less than \$5.00 per share are deemed penny stocks for the limited purpose of Section 15(b)(6) of the Exchange Act. Therefore, during the time which the common stock is quoted on the NASDAQ OTC Bulletin Board at a price below \$5.00 per share, trading of the common stock will be subject to the full range of the Penny Stock Rules. Under these rules, broker dealers must take certain steps before selling a "penny stock," which steps include: (i) obtaining financial and investment information from the investor; (ii) obtaining a written suitability questionnaire and purchase agreement signed by the investor; and (iii) providing the investor a written identification of the shares being offered and in what quantity. If the Penny Stock Rules are not followed by the broker-dealer, the investor has no obligation to purchase the shares. Given the application of the

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

comprehensive Penny Stock Rules it may be more difficult for broker-dealers to sell the common stock.

Accordingly, no assurance can be given that an active market will always be available for the Common stock, or as to the liquidity of the trading market for the Common stock. If a trading market is not maintained, holders of the Common stock may experience difficulty in reselling them or may be unable to resell them at all. In addition, there is no assurance that the price of the Common stock in the market will be equal to or greater than the offering price when a particular offer of securities is made by or on behalf of a Selling Securityholder, whether or not Novex employs market makers to make a market in Novex's stock.

Item 6. Selected Financial Data

The following selected historical consolidated statement of operations for the three years ended May 31, 2003, 2002 and 2001 and balance sheet as of May 31, 2003 and 2002 have been derived from the consolidated financial statements of Novex that are included elsewhere in this Form 10-KSB and that have been audited by Radin & Glass, P.C. (except as noted below) whose reports with respect to the consolidated financial statements are also included elsewhere in this Prospectus. This information should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements appearing elsewhere in this Form 10-KSB and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Years Ended May 31		
	2001	2002	
	(unaudited)		
STATEMENT OF OPERATIONS			
DATA:			
Net Sales	\$ 2,007,562	\$ 1,866,914	\$ 1,
Gross Profit	616,864	672,313	
Net Loss	(1,496,819)	(1,103,360)	(1,
 Net Loss Per Common Share	 \$ (.06)	 \$ (.04)	 \$
 BALANCE SHEET DATA:			
Working Capital Deficit	\$ (2,430,940)	\$ (2,954,752)	\$ (4,
Goodwill, net	678,236	628,784	
Total Assets	2,533,121	2,570,791	1,
Long Term Debt	-0-	-0-	
Stockholders' Deficiency	(550,808)	(1,094,569)	(2,

13

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Year ended May 31, 2003 (Fiscal 2003) as compared to May 31, 2002 (Fiscal 2002)

While net sales for the year ending May 31, 2003 were \$1,046,673 net sales

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

for the same period ended May 31, 2002, were \$1,866,914. The decrease in sales was attributable principally to the Company's new business operation being a licensing company versus a manufacturer. Prior to entering into the Licensing Agreement Novex would record revenues based on the invoice value of goods sold. From February 1, 2003 through May 31, 2003, Novex records revenue based on the royalty payments, which are a percentage of the invoice value of goods sold and, therefore, net sales are now much lower than the invoice value of goods sold. However, Novex has eliminated a substantial amount of its fixed and variable expenses by terminating its manufacturing expenses.

Novex achieved a gross margin of 33% for the year ending May 31, 2003. Due to the change in the manner in which Novex conducts its business it is not relevant to compare the gross margin achieved in Fiscal Year 2003 with prior fiscal periods years that consisted of twelve full months of manufacturing activity. In Fiscal 2003, Novex had operated a manufacturing business for eight months and a licensing business for four months.

For the year ending May 31, 2003, the Company generated a loss of \$1,566,687. Included in this loss was a one-time charge of \$643,005 for the closing of the Novex's manufacturing operation and \$410,409 in finance charges. Novex also recorded non-cash expenses for depreciation and amortization of \$105,393. Based solely on its business operations, Novex generated a loss before interest, taxes depreciation, amortization and the one-time write-off from the discontinuation of its manufacturing operations of \$407,880.

Since the commencement of the Licensing Agreement, Novex generated \$110,558 of royalty fees. On a monthly basis, Novex now incurs approximately \$20,000 in selling, general and administrative expenses expense.

As of May 31, 2003, the Company had \$71,333 in current assets, which consisted principally of accounts receivable of \$15,138 and royalty receivables of \$53,030, with the remaining balance in cash. The Company's net property, plant and equipment totaled \$767,299 and it has goodwill of \$591,694 which is attributable to the two acquisitions that the Company completed in 1999 and 2000.

Year ended May 31, 2002 (Fiscal 2002) as compared to May 31, 2001 (Fiscal 2001)

While net sales for the year ending May 31, 2002 were \$1,866,914 while net sales for the same period ended May 31, 2001 were \$2,007,705. The decrease in sales was attributable principally to Novex's inability to ship orders on a more timely basis due to cash constraints and the overall slowness of the economy.

Novex only achieved a gross margin of 36% for the year ending May 31, 2002. The increase in

14

gross margin during this period was attributable primarily to the discontinuation of certain lower margin products and some products that were associated with Novex's Canadian operation.

For the year ending May 31, 2002, the Company generated a loss from operations of \$661,088.

As of May 31, 2002, the Company had \$710,608 in current assets, which consisted principally of accounts receivable of \$386,218 and inventory of \$156,284. The Company's net property, plant and equipment totaled \$1,231,399 and goodwill of \$628,784 which is attributable to the three acquisitions that the Company completed in 1998, 1999 and 2000.

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Liquidity and Financial Resources

As of May 31, 2003, the Company had \$4,078,592 in current liabilities, which includes loans (including interest) that are now due totaling \$3,334,114, a term loan of \$704,667 and a revolving line of credit of \$414,018 with Dime Commercial Corp. which is used to fund the Company's operations. It had accounts payable of \$960,000 and accrued expenses of \$32,000.

Of the loans due in the amount \$3,334,114, approximately \$1,336,000 was satisfied on July 17, 2003 when Novex conveyed ownership of its real property and equipment to Dime. Four of Novex's shareholders have also loaned the company a total of \$1,645,000 and have earned \$318,057 of interest that has been accrued, but unpaid. Of the \$1,645,000 of principal loans outstanding, \$1,061,000 is held by one person that has properly perfected security interest against Novex's remaining assets, being all its intangible property.

Novex is planning to increase its royalty revenue and use excess cash proceeds to pay down its debt while it continues to pursue a new business that could be merged with Novex. With any merger Novex will seek to refinance its debt by either paying off all debt in cash or an offer of cash and stock. Although Novex is required to carry its intangible property at a net value of \$592,000, it believes that the fair market value for these assets are \$1,500,000. Assuming another business could be merged into Novex with all of Novex's current expenses being applied to the new business, the royalty payments, even if not improved, would produce \$30,000 on average of monthly cash flow, which under current valuation methods to for measuring the worth of a business would merit a value of \$1,500,000. As such, Novex believes that a refinancing that would enable creditors to receive cash and some additional equity in the company will eliminate all debts.

Until such time as Novex shall merge with another entity, its current cash flow is sufficient to meet its fixed monthly expenses. Since entering into the Licensing Agreement Novex has paid down over \$150,000 in liabilities from royalty income and accounts receivables.

Inflation and Changing Prices

Novex does not foresee any risks associated with inflation or substantial price increase in the near future. In addition, the raw materials that are used by Novex in the manufacturing of its materials are available locally through many sources and are for the most part commodity products. The one raw material that Novex uses in all its products that cannot be classified as a pure commodity is currently in sufficient supply. In addition, Novex presently owns approximately 600,000 lbs. of this product. For these reasons, while Novex will always have exposure to inflationary risks, it does not believe that

15

inflation will have any materially significant impact on its operations in the near future.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure on contingent assets and liabilities at the

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see our note 2 to our financial statements.

Long-Lived Assets (including Tangible and Intangible Assets)

We acquired businesses in recent years, which resulted in tangible assets being recorded. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. We assess potential impairment to the intangible and tangible assets on a quarterly basis or when evidence that events or changes in circumstances indicate that the carrying amount of an assets may not be recovered. Our judgments regarding the existence of impairment indicators, if any, and future cash flows related to these assets are based on operational performance of our business, market conditions and other factors.

Accounting for Income Taxes

As part of the process of preparing our financial statements we are required to estimate our income taxes. Management judgment is required in determining our provision of our deferred tax asset. We recorded a valuation for the full deferred tax asset from our net operating losses carried forward due to the Company not demonstrating any consistent profitable operations. In the event that the actual results differ from these estimates or we adjust these estimates in future periods we may need to adjust such valuation recorded.

Going Concern

The financial statements of the Company have been prepared assuming that the Company will continue as a going concern. The Company has had negative working capital for each of the last two years ended May 31, 2003 and 2002. The Company has recently relinquished title to its property and equipment due to default of its bank line of credit and mortgage on its property. The Company is in arrears with paying payroll taxes for several months. Those conditions raise substantial doubt about the abilities to continue as a going concern. The financial statements of the Company do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Item 8. Financial Statements and Supplementary Data

	Page
Independent Auditors' Report	F-2
Financial Statements:	
Balance Sheet as of May 31, 2003	F-3
Statement of Operations for the years ended May 31, 2003 and 2002	F-4
Statement of Changes in Shareholders'	

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Deficiency for the year ended May 31, 2003	F-5
Statement of Cash Flows for years ended May 31, 2003 and 2002	F-6
Notes to Consolidated Financial Statements	F-7

17

INDEPENDENT AUDITOR'S REPORT

Shareholders and Directors
Novex Systems International, Inc.

We have audited the accompanying balance sheet of Novex Systems International, Inc. as of May 31, 2003, and the related statements of operations, shareholders' deficiency, and cash flows for each of the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2003, and the results of its operations and cash flows for each of the two years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered from recurring losses from operations, including a net loss of \$1,566,685 for the year ended May 31, 2003, and has a negative working capital and shareholder deficiency as of May 31, 2003. The Company is also in default with its bank lines of credit and is in arrears with paying payroll taxes by several months. These factors raise substantial doubt the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Certified Public Accountants

New York, New York
October 14, 2003

F-2

NOVEX SYSTEMS INTERNATIONAL, INC.
BALANCE SHEET

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

May 31, 2003

ASSETS	
CURRENT ASSETS:	
Cash	\$ 3,165
Accounts receivable	68,169

Total Current Assets	71,334
PROPERTY, PLANT AND EQUIPMENT - net	767,298
GOODWILL - net	591,695

	\$ 1,430,327
	=====
LIABILITIES AND SHAREHOLDERS' DEFICIENCY	
CURRENT LIABILITIES:	
Current portion of long term debt	\$ 2,210,868
Bank line of credit	414,018
Accounts payable	592,224
Loans payable - shareholder	126,519
Accrued expenses and other current liabilities	358,128
Accrued payroll taxes	376,835

Total Current Liabilities	4,078,592

COMMITMENTS AND CONTINGENCY	
SHAREHOLDERS' DEFICIENCY:	
Preferred stock - \$0.001 par value, 10,000,000 shares authorized, 1,644,133 shares issued and outstanding (liquidation value \$1,644,133)	1,644,133
Common stock - \$0.001 par value, 50,000,000 shares authorized 26,245,187 shares issued and outstanding	26,245
Additional paid-in capital	6,413,267
Accumulated deficit	(10,731,910)

Total shareholders' deficiency	(2,648,265)

	\$ 1,430,327
	=====

See notes to financial statements.

F-3

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

	Year Ended May 31,	
	2003	2002
	----	----
NET SALES	936,115	1,866,914
ROYALTY REVENUE	110,558	--
	-----	-----
TOTAL SALES	1,046,673	1,866,914
COST OF GOODS SOLD	705,034	1,194,601
	-----	-----
GROSS PROFIT	341,639	672,313
SELLING, GENERAL AND ADMINISTRATIVE	1,555,358	1,333,401
	-----	-----
LOSS FROM OPERATIONS	(1,213,719)	(661,088)
	-----	-----
OTHER INCOME (EXPENSES):		
Interest expense	(315,877)	(312,529)
Amortization or debt discount	(37,089)	(38,016)
Change in valuation of put warrant	--	3,279
	-----	-----
OTHER EXPENSES, net	(352,966)	(347,266)
	-----	-----
LOSS FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM	(1,566,685)	(1,008,354)
	-----	-----
EXTRAORDINARY ITEM:		
Gain on extinguishment of debt	--	42,873
	-----	-----
NET LOSS	(1,566,685)	(965,481)
Less: Preferred stock dividend	164,413	137,879
	-----	-----
NET LOSS TO COMMON SHAREHOLDERS	\$ (1,731,098)	\$ (1,103,360)
	=====	=====
LOSS PER COMMON SHARE, basic and diluted:		
FROM CONTINUING OPERATIONS	\$ (0.07)	\$ (0.04)
FROM EXTRAORDINARY ITEM	--	--
	-----	-----
TOTAL LOSS PER COMMON SHARE, basic and diluted	\$ (0.07)	\$ (0.04)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted	26,557,687	26,085,795
	=====	=====

See notes to financial statements.

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Addition Paid- Capit
	-----	-----	-----	-----	-----
BALANCE, May 31, 2001	1,390,388	\$ 1,390,388	24,648,988	\$ 24,649	\$ 6,09
Conversion of debt to common stock			285,786	286	4
Issuance of common stock and warrants for services			135,000	135	2
Issuance of common stock with debt			261,000	261	2
Issuance of common stock with loan from shareholder			190,000	190	1
Proceeds from sale of common stock			1,349,413	1,349	17
Value of options issued with debt					1
Preferred stock dividend	253,745	253,745			
Net loss					
BALANCE, May 31, 2002	1,644,133	\$ 1,644,133	26,870,187	\$ 26,870	\$ 6,39
Share repurchase			(625,000)	(625)	(
Warrant contribution					2
Preferred stock dividend					
Net loss					
BALANCE, May 31, 2003	1,644,133	\$ 1,644,133	26,245,187	\$ 26,245	\$ 6,41

See notes to financial statements.

F-5

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

	Year Ended May 31,	
	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,566,685)	\$ (965,48
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for bad debts	--	77,79
Depreciation and impairment of equipment	464,101	88,13
Amortization of goodwill	37,089	49,45
Loss (gain) on change in valuation of put warrant	--	(3,27
Gain on extinguishment of debt	--	(42,87
Common stock and options issued for payment of services and compensation	--	24,75
Amortization of debt discount	22,364	38,01

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Changes in assets and liabilities, net of the effect from acquisition:		
Accounts receivable	318,049	(107,56)
Inventories	156,284	47,97
Prepaid and other current assets	143,477	(113,25)
Accounts payable	210,864	(130,20)
Accrued expenses and other current liabilities	194,776	424,21
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(19,681)	(612,31)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	--	-
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash overdraft	--	(28,34)
Repayment of loans payable - shareholders	(26,152)	80,65
Repayment of proceeds from bank line of credit	(158,292)	115,90
Proceeds from debt financing	192,036	300,00
Repayment of debt obligations	--	(69,50)
Repurchase of common stock	(9,375)	
Proceeds from issuance of debt	--	27,73
Proceeds from the sale of common stock and exercise of options	--	194,50
Proceeds from options issued with debt	--	16,00
	-----	-----
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,783)	636,94
	-----	-----
NET INCREASE (DECREASE) IN CASH	(21,464)	24,62
CASH AT BEGINNING OF YEAR	24,629	-
	-----	-----
CASH AT END OF YEAR	\$ 3,165	\$ 24,62
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 260,783	\$ 205,74
	=====	=====
Income taxes	\$ 0	\$ -
	=====	=====
Non-cash flow and investing and financing activities:		
Accrued preferred stock dividend payable	\$ 0	137,87
	=====	=====

See notes to financial statements.

F-6

NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2003 AND 2002

1. DESCRIPTION OF BUSINESS

Novex Systems International, Inc. ("Novex" or the "Company") currently receives a monthly royalty from the business of manufacturing and

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

marketing a diversified line of construction products including pre-packaged concrete repair, grouting and patching products and masonry waterproofing products. The principal markets for the Company's products are retailers, construction professionals and distributors located throughout the United States and in certain areas of Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Presentation - The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred net losses of \$1,566,685 and \$965,481 for the years ended May 31, 2003, and 2002, respectively. Additionally, the Company had a net working capital deficiency and a shareholders' deficiency at May 31, 2003 and negative cash flow from operations for the years ended May 31, 2003 and 2002. The Company is also in default of its bank lines of credit and in arrears with paying payroll taxes by several months. Those conditions raise substantial doubt about the Company's ability to continue as a going concern. Management expects to incur additional losses in the foreseeable future and recognizes the need to raise capital to achieve their business plans. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.
 - b. Inventories - Inventories are stated at the lower of cost (first-in, first-out method) or market.
 - c. Property, Plant and Equipment - Property and equipment are recorded at cost. Depreciation is provided on the straight-line method based upon the estimated useful lives of the respective assets. Property and equipment are being depreciated over a period of five years. Maintenance, repairs and minor renewals are charged to operations as incurred, whereas the cost of significant betterments is capitalized. Upon the sale or retirement of property and equipment, the related costs and accumulated depreciation are eliminated from the accounts and gains or losses are reflected in operations.
 - d. Impairment of Long-Lived Assets - The Company reviews long-lived assets, certain identifiable assets and goodwill related to those assets on a quarterly basis for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. The Company has written down its equipment for an amount in excess of \$300,000 due the restructuring of its operations, whereby the Company no longer manufactures its products. The manufacturing of its products is performed by an unrelated party effective January 31, 2003 and the Company now receives a royalty for each product sold.
- F-7
- e. Fair Value of Financial Instruments - The carrying value of cash and cash equivalents, accounts receivable, other receivables, due to factor, accounts payable and accrued expenses approximate their fair values based on the short-term maturity of these instruments. The carrying amounts of long-term debt were also estimated to approximate fair value.
 - f. Revenue Recognition - Revenue is recognized when the product is shipped to the customer. Allowances for estimated bad debts, sales

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

returns and allowances are provided when sales are recorded.

- g. Shipping and Handling Fees - The Company records the amounts billed to customers for shipping and handling in net sales and the related costs in selling, general and administrative expenses. For the years ended May 31, 2003 and 2002, the Company recorded shipping and handling fees of \$135,587 and \$140,730, respectively.
 - h. Advertising Costs - All advertising costs, excluding cooperative advertising programs, are expensed as incurred or the first time the advertisement takes place. Novex establishes an allowance for cooperative advertising costs at the time the related sale is recognized. Advertising expense charge to operations for the years ended May 31, 2003 and 2002 amounted to approximately \$10,225 and \$25,875, respectively.
 - i. Loss Per Share - Basic net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding. For the years ended May 31, 2003 and 2002, diluted loss per share is the same as basic loss per share since the inclusion of stock options and warrants would be antidilutive.
 - j. Stock Options -The Company accounts for all transactions under which employees, officers and directors receive shares of stock in the Company in accordance with the provisions of Accounting Principles Board Opinion No. 25. "Accounting for Stock Issued to Employees." In accordance with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," the Company adopted the pro forma disclosure requirements of SFAS 123. Accordingly, no compensation has been recognized in the results of operations for the employees, officers and directors stock option plan.
 - k. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.
 - l. Comprehensive Income - SFAS No. 130, "Reporting Comprehensive Income", establishes standards for reporting and displaying comprehensive income, comprising net income and other non-owner changes in equity, in the financial statements. For all periods presented, comprehensive income was the same as net income.
- F-8
- m. Segment Information - SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information", defines operating segments as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Based on the way it organizes its business for making operating decisions and assessing performance, the Company has determined that it has a single reportable operating segment.
 - n. Recent Accounting Pronouncements - In June 2002, the Financial

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Accounting Standards Board issued SFAS No. 146 on "Accounting for Costs Associated with Exit or Disposal Activities". The Company is reviewing the requirements and implications of adopting such standards by December 31, 2002. This Statement addresses financial and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring)." The Company currently does not believe adopting such standards will have a material effect on the presentation of the financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the disclosure provisions in the accompanying financial statements as discussed.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires the recognition of a liability for certain guarantee obligations issued or modified after December 31, 2002. FIN No. 45 also clarifies disclosure requirements to be made by a guarantor of certain guarantees. The disclosure provisions of FIN No. 45 are effective for fiscal years ending after December 15, 2002. We have adopted the disclosure provisions of FIN No. 45 as of February 28, 2003. The Company does not expect the adoption of FIN No. 45 to have a material impact on its financial position, results of operations or cash flows.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all new

F-9

variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. The company is currently analyzing the existing guidance and reviewing any developments with regard to the proposed FASB Staff Positions issued on the implementation of FIN No. 46 which are currently subject to public comment. Therefore, the company cannot determine whether there will be an impact on its financial position, results of operations, or cash flows at this time.

In January 2003, the FASB issued EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." This EITF addresses the accounting by a vendor for consideration (vendor allowances) given to a customer, including a reseller of the vendor's products, and the accounting by a reseller for cash consideration received from a vendor. It is effective for certain arrangements entered into after November 21, 2002, and for all new arrangements, including modifications to existing arrangements, entered into after December 31, 2002. The company adopted the provisions of the EITF in the fourth quarter of fiscal 2003 and, as the company's policies were already consistent with those of EITF 02-16, the adoption of this standard did not have a material impact on the company's financial position, results of operations or cash flows.

In April 2003, the FASB issued SFAS Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is effective for contracts entered into or modified after June 30, 2003, except for certain hedging relationships designated after June 30, 2003. Most provisions of this Statement should be applied prospectively. The Company does not expect the adoption of SFAS No. 149 to have a material impact on our financial statements.

In May 2003, the FASB issued SFAS Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities, if applicable. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. The Company does not expect the adoption of SFAS No. 150 to have a material impact on our financial statements.

F-10

3. CONCENTRATION OF CREDIT RISK

The Company's accounts receivable are concentrated 100% with one customer.

4. ROYALTY AGREEMENT

On January 31, 2003, the Company entered into a licensing agreement, until December 2004 with an unrelated entity "Licensee" to manufacture, market and distribute the Company's Por-Rok, Dash patch and Sta-Dri products in exchange

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

for monthly royalty payments ranging from 15% to 25% of the invoiced amount to the customer. In addition the Licensee purchased at cost the inventory on hand from the Company payable in three installments through March 31, 2003. The Licensee has the right to terminate the agreement within 180 days from the commencement date of the agreement for the following reasons; failure to ship a minimum of \$375,000 of merchandise in two consecutive quarters, Licensee having become subject to a 50% change in control, Licensee becoming subject to involuntary bankruptcy.

5. PROPERTY, PLANT AND EQUIPMENT

At May 31, 2003 property, plant and equipment consists of the following:

Land	\$ 400,000
Building	415,000
Property and equipment	157,575
Leasehold Improvements	5,764

	978,339
Less: Accumulated depreciation and amortization	(211,041)

	\$ 767,298
	=====

6. ACCRUED EXPENSES AND OTHER LIABILITIES

As of May 31, 2003, accrued expenses and other liabilities consist of the following:

Accrued interest payable	\$ 318,057
Other accrued	37,026

	\$ 358,128
	=====

F-11

7. GOODWILL

Goodwill arose in connection with the acquisitions of Arm Pro in September 1998, and with the acquisition of Allied / Por-Rok lines in August 1999 and Sta-Dri in August 2000. Effective June 1, 2002, the Company applied the provisions of SFAS and goodwill continues to be amortized on the straight-line method over 10 years for Arm Pro and over 15 years for Allied/ Por-Rok and Sta-Dri.

8. LOANS PAYABLE -SHAREHOLDER

Loans payable to shareholders bear interest at 10% per annum and the principal plus accrued interest is due on demand.

9. INCOME TAXES

At May 31, 2003, the Company has available unused net operating loss carryovers approximately \$9,400,000 that may be applied against future

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

taxable income and expire at various dates through 2020. The Company has a deferred tax asset arising from such net operating loss deductions and has recorded a valuation allowance for the full amount of such deferred tax asset since the likelihood of realization of the tax benefits cannot be determined.

	2003
Deferred tax asset:	
Net operating loss carryforward	\$ 3,200,000
Valuation allowance	(3,200,000)

Net deferred tax asset	\$ --

A reconciliation of the statutory federal income tax benefit to actual tax benefit is as follows:

	2003	2002
Statutory federal income tax benefit	\$ 510,000	\$ 296,000
Income tax benefit not utilized	(510,000)	(296,000)
	-----	-----
Actual tax benefit	\$ --	\$ --
	-----	-----

If the Company has a greater than 50% change in ownership of certain stock holdings by shareholders of the Company pursuant to Section 382 of the Internal Revenue Code, the net operating losses may be limited. Currently no such evaluation has been performed.

F-12

10. BANK LINE OF CREDIT

In connection with the acquisition of the Allied/Por-Rok division of The Sherwin Williams Company, Novex Systems International, Inc. obtained a \$750,000 line of credit from Dime Commercial Corp. (see Subsequent Events Note). The line provides working capital and is secured by accounts receivable and inventory. Advances under the line are based on 80% of eligible accounts receivables and 50% of eligible inventory. Interest is computed on the average monthly balance under the line based on 4% above the prime rate. The Company is currently in negotiations to settle such debt through the release of its collateral. At May 31, 2003, the prime rate was 4.25%.

As of May 31, 2002 and 2003, the Company was not in compliance with several of the financial covenants.

11. LONG TERM DEBT

At May 31, 2003, long-term debt consists of:

Notes payable (a)	\$1,061,000
Debenture payable (b)	125,000
Dime note payable (c)	704,668
Notes payable (d)	325,000

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

	2,215,668
Less: Unamortized debt discount	4,800

	2,210,868
Less: Current portion	2,210,868

	\$ --
	=====

- a) In the year ended May 31, 2002, the Company raised an additional \$125,000 from the same holder of the notes payable of \$886,000 at May 31, 2001. The notes payable bear interest at 10% per annum and the principal plus accrued interest is due on demand. The notes payable are secured by a subordinated security interest in Novex's property, plant and equipment. The notes payable are due to parties associated with a director of the Company and provide the holder with piggyback registration rights. In connection with the notes payable the Company issued 750,000 shares of common stock as consideration for the financing and recorded as debt discount of \$95,950 during the year ended May 31, 2001. During the year ended May 31, 2002, the Company issued 261,000 shares of common stock relating to the issuance and extension of the existing debt. These common shares were valued at \$27,597 and recorded as an expense. .

F-13

In December 2002, a note holder signed an agreement to forbear from pursuing any claims against the Company to seek repayment of outstanding principal and interest due on the promissory notes purchased from the Company. In consideration for signing the agreement, the Company agreed to pay the note holder \$50,000 on the additional condition that the note holder tender to the Company for cancellation, 625,000 shares of the Company's \$.001 par value common stock it is holding. The \$50,000 payment was allocated \$40,625 to interest expense and \$9,375 to the repurchase of common stock.

- b) Included in long-term debt are debentures owing to a stockholder of the company, Quilcap, Corp., in the amount of \$125,000. This debenture from February 25, 1999, bears interest at 15% per annum and matured on May 31, 1999.
- c) The Company is obligated to Dime Commercial Corp. for \$704,668 under a term loan. The term loan has been recorded net of a discount of \$8,200 as a result of the put warrant. Amortization of discount charged to operations for fiscal year 2002 was \$1,400. The loan provides for monthly interest payments based on the prime rate plus four percent. Installments due under the loan begin on March 13, 2000 in the amount of \$7,722 per month. The loan matures on August 13, 2002 with a balloon payment of \$655,000. There was a put warrant granted with the term loan, exercisable at \$.25 and having an expiration date of September 1, 2002. In accordance with Emerging Issues Task Force No. 96-13 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock," we have allocated \$21,037, to the put warrant and recorded the amount as part of long-term debt as of May 31, 2002. The put warrant expired in August 2002 and the remaining recorded value of such warrant was recorded as a contribution to equity. The note is collateralized by all of Novex's property, plant and equipment at the Clifton facility. Prime rate at May 31, 2003, was 4.25%. As of

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

May 31, 2003, the Company was not in compliance with several of the financial covenants and has not received a waiver from the bank. Therefore, long-term debt has been classified in the accompanying balance sheet as current liabilities.

- d) In May 2002 and 2003, the Company raised \$325,000 from outside investors. The note payable bears interest at 10% per annum and the principal plus accrued interest is due on July 23, 2002. In connection with the note payable for the 2002 portion the Company issued 400,000 stock options as consideration for the financing and recorded as debt discount \$16,000, of which \$1,600 has been expensed. The Company is in default of note payables, which have matured are currently due and outstanding.

12. SHAREHOLDERS' DEFICIENCY

Preferred Stock

On August 7, 2000, the Company issued cumulative 10% series A convertible redeemable preferred stock ("series A preferred stock") for \$1,281,351 in notes payable plus accrued interest of \$109,037. The series A preferred stock has a liquidation preference of \$1.00 per share plus declared and unpaid dividends. The series A preferred stock can be redeemed at the option of the issuer at any time and any number of shares including unpaid dividends until August 7, 2002. The series A preferred stock shall accrue dividends at a rate of 10% per year and on each anniversary

F-14

date of the issuance of these shares the Company will issue one additional share of series A preferred stock for each one-dollar amount of unpaid dividends payable.

During 2002, the Company issued 253,745 shares of preferred stock for dividends attributed to the terms of the preferred stock through May 31, 2002.

After August 7, 2002, if any shares of the series A preferred stock are outstanding, including unpaid dividends, the Company will be required to declare a "special dividend" equal to 15% of the value of the series A preferred stock and therefore issues additional shares of series A preferred stock. Further, the series A preferred stock will automatically convert to common stock at a rate equal to 85% percent of the average trading price for the twenty consecutive days prior to August 7, 2003. Should the Company's common stock remain at its current low prices, upon the maturity date of August 7, 2003, the Company may be required to issue sufficient common shares to effectuate a change in control of the Company.

Furthermore, the Company has provided the holder with the right to purchase any shares of the Company's common stock offered for sale or securities convertible into its common stock from August 7, 2000 until August 12, 2002.

During 2003, the Company did not issued the 164,413 dividends attributed to the terms of the preferred stock through May 31, 2003, since the Company was in active negotiations to acquire or eliminate such series A preferred stock. See Subsequent Events Note.

Additionally, the Company cannot declare and pay any cash or stock dividends to any other class of equity securities until the series A

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

preferred stock has been redeemed or converted to common stock.

Common Stock

- a. During fiscal 1996, former management of the Company issued 1,800,000 shares for an amount that present management is unable to determine. The Company has been contacting the registered shareholders to determine if appropriate consideration was received for these shares. The shares have been recorded as outstanding with no consideration received for their issuance. During the years ended May 31, 1999 and 1998, a total of 120,000 and 483,750 shares of common stock, respectively, were returned by the registered shareholders and have been canceled by the Company. The Company intends to continue to pursue litigation against the remaining shareholders that it alleges have received securities without paying fair consideration to the Company.
- b. In February 2001, the Company raised \$50,000 from the sale of 625,000 shares of restricted common stock. In December 2002, these shares were canceled.

In August 2000, the Company issued 1,000,000 shares of common stock in connection with the acquisition of certain assets from The Sta-Dri Company.

F-15

During August 2000, the Company issued 30,000 shares of restricted common stock for services rendered. The common stock was valued at \$3,900 and recorded as consulting expense.

In December 2000, the Company issued 100,000 shares of restricted common stock for investor relation services. The common stock was valued at \$4,100, and was recorded as consulting expense.

During the year ended May 31, 2001, the Company issued 750,000 shares of its common stock to an affiliate as consideration for notes payable of \$886,000. These shares were valued at prices ranging between \$.056 to \$.061 per share.

- c. Equity transactions during fiscal year 2002 were as follows:
 - o The Company issued 135,000 shares of common stock and 75,000 warrants for services rendered during the year, which have been valued at \$24,753.
 - o The Company issued 451,000 shares of common stock relating to the issuance and extension of indebtedness, such shares were valued at \$41,233.
 - o The Company sold 1,349,413 shares of common stock for \$181,000, during fiscal year 2002 pursuant to a confidential offering memorandum.
 - o The Company issued 285,786 shares of common stock for the conversion of indebtedness of \$42,688.
- d. Equity transactions during fiscal year 2003 were as follows:
 - o The Company reacquired 625,000 shares of common stock as

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

part of a debt forbearance agreement with its single largest non-institutional creditor.

- o The Dime put warrant expired in August 2002, resulting in a contribution to capital in the amount of \$22,364.

F-16

13. STOCK OPTIONS

The following table summarizes the activity with regard to options and warrants for the year ended May 31, 2002. No options or warrants were granted, cancelled or exercised in fiscal 2003.

	Stock Options			Shares
	Shares	Exercise Price	Exercisable	
May 31, 2001	1,373,424	0.25 - 0.50	1,373,424	735,36
Granted	400,000	0.07	400,000	75,00
May 31, 2002	1,773,424	\$ 0.07 - 0.50	1,773,424	810,36

The Company granted 75,000 warrants for consulting services during 2002, which have been valued at \$10,503 and expensed.

The Company granted 400,000 stock options relating to the extension of indebtedness, such options were valued at \$16,000 and are to be amortized over the term of the loan.

14. STOCK-BASED COMPENSATION

The Company accounts for its stock option plans under APB No. 25, "Accounting for Sock Issued to Employees," ("APB 25"), under which no compensation cost is recognized. In fiscal 1997, the Company adopted SFAS no. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") for disclosure purposes; accordingly, no compensation has been recognized in the results of operations for its stock option plan as required by APB 25. No options or warrants have been granted to employees, officers and directors during fiscal years 2003 and 2002.

15. COMMITMENTS AND CONTINGENCY

- a. The Company leases an automobile, telecommunication and reproduction equipment under long-term lease agreements. These lease agreements require cumulative monthly payments of approximately \$880 per month for the terms of the respective leases expiring between December 2003 and February 2004.

The future minimum lease payments, excluding escalation charges, are as follows:

Year Ending

May 31, 2004

\$ 3,384

=====

F-17

Total rental expenses for the years ended May 31, 2003 and 2002 was approximately \$1,000 and \$9,600, respectively.

- b. The Company has a licensing agreement for certain concrete related products, including an admixture that is capable of enhancing the basic characteristic of cementitious products. The Company is obligated to pay royalties based on a percentage of sales, subject to an annual guaranteed minimum royalty. Currently, the Company has not had to pay royalties as the licensed products are still in the development stage and therefore have not been ready for sale to customers. Furthermore, the Company has had several discussions with the licensor who has agreed to defer the minimum royalty payments until the Novacrete Admixture product emerges from the research and development stage.
 - c. During fiscal 1997, a shareholder commenced an action against the Company and its former President to enjoin the Company and the former President from taking any action that would restrict the sale of common stock that he allegedly owns. In the opinion of management, this action is without merit and will not have a material adverse effect on the Company's financial position or results of operations.
 - d. As of August 1, 2001 and until August 1, 2002, the Company will have to pay an additional \$6,000 each month to the former owners of The Sta-Dri Company in the event that common stock of the Company has not traded above \$1.00 per share for twenty consecutive trading days in each month. In the event that the common stock trades in excess of \$1.00 per share for twenty consecutive days the \$6,000 monthly obligation shall terminate. The Company's common stock did not trade above the questioned time period and therefore has accrued for such payments due. These payments due and outstanding are recorded in accounts payable.
16. SUBSEQUENT EVENTS
- a. On September 3, 2003, The Sherwin-Williams Company ("Sherwin") surrendered for cancellation all of its 1,000,000 shares of common stock and all of its 1,758,839 shares of preferred stock, including accrued dividends after February 28, 2003. The decision was based solely on Sherwin's review of its mandatory right to convert its preferred shares into common stock pursuant to an agreement reached on August 7, 2000, which upon exercise would have resulted in Sherwin owning over 90% of the company's common stock. Under the circumstances Sherwin preference was to terminate its entire ownership interest in the Company, versus having to assume a substantial controlling interest in the Company pursuant to the terms and conditions of the August 7, 2000 agreement.

Effective September 3, 2003, the Company has terminated all of its preferred shares having had a liquidation preference of \$1.00 per

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

share, or a face value of \$1,758,359, and has reduced its issued and outstanding common stock by 1,000,000 shares to 25,245,187.

- b. The Company's former bank Dime Commercial Corp ("Dime"), refused to extend its foreclosure date of July 1, 2003, to enable the Company to close a contract to sell its former

F-18

operating plant in Clifton, New Jersey to a buyer that had agreed to purchase the property for \$1,380,000 (and had placed \$100,000 into escrow). On July 1, 2003, pursuant to the foreclosure, the Company conveyed full ownership of its real property and personal tangible property to Dime. The Company continues to own all of its intangible personal property which it needs to remain as a going concern.

Dime has since listed the real property for sale at \$1,500,000 and has appraised the personal tangible property at \$157,575 for a total value of \$1,657,575. On July 1, 2003, the full amount of the judgment owed to Dime, plus costs was \$1,336,299. The Company has demanded in a formal court filing that it receive a surplus of the difference between the fair market value of its property and the judgment. The Company continues to negotiate a settlement with Dime and is also considering filing for bankruptcy.

F-19

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Novex has engaged the certified public accounting firm of Radin, Glass & Co., LLP as its outside auditors to audit the company's annual financial statements for the fiscal year ending May 31, 2003 and has had no disagreements with them.

PART III

Item 10. Directors and Executive Officers of the Registrant

The following provides certain information concerning the directors and executive officers of Novex and its subsidiaries as of May 31, 2003.

Name ----	Age ---	Position -----
William K. Lavin	59	Chairman, Secretary
Daniel W. Dowe	41	Director, President and Chief Executive Officer
Edward J. Malloy	67	Director
Kevin DeMatteis	39	Director

William K. Lavin. Mr. Lavin became a director in October, 1997 and currently operates his own consulting business that he formed in 1994. Before forming his firm, he was Chief Executive Officer of Woolworth Corporation (renamed "Venator") from 1993 to 1994 and immediately before that position he served as

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Woolworth's Chief Administrative and Financial Officer. Mr. Lavin also serves on the board of directors of the Allegheny Corporation (NYSE:Y) and Chicago Title Corporation (NYSE:CTZ).

Daniel W. Dowe. Mr. Dowe became a director in March, 1997, Acting President on November 17, 1997 and President and Chief Executive Officer on April 1, 1998. Mr. Dowe has agreed to serve in this capacity for a three year period pursuant to a written employment agreement and will have an option to serve for an additional three year period. He was the founder of Dowe & Dowe, a New York City-based law firm that provided legal services to Novex. From 1993 to November 17, 1997, Mr. Dowe practiced corporate and securities law at his firm. Before practicing law, he was employed by Alliance Capital Management Company, Salomon Brothers (Salomon Smith Barney, a division of Citigroup, Inc.) and J.P. Morgan Bank.

Edward J. Malloy. Mr. Malloy became a director of Novex in January, 1998. Since 1993 he has been President of the Building and Construction Council of Greater New York. Mr. Malloy represents the interests of over 200,000 laborers involved in the building trades in the Greater New York City area. He is responsible for developing building projects in both the public and private sectors to ensure an adequate level of work for his union members. Mr. Malloy brings to Novex an extensive level of contacts and industry experience.

18

Kevin DeMatteis. Mr. DeMatteis became a director of Novex in January 2001. Mr. DeMatteis is part of the DeMatteis Development Organization, which is a closely-held developer of large scale real estate projects in the United States and in international markets.

Committees of the Board of Directors

The Board of Directors does not have a standing audit or nominating committee or any other committees performing similar functions. Novex does have a compensation committee consisting of Messrs. Lavin and Malloy (the "Compensation Committee"). The Compensation Committee is responsible for assuring that the officers and key management of Novex are effectively compensated in terms of salaries, incentive compensation and benefits which are internally equitable and externally competitive. The Compensation Committee is responsible for setting the compensation of the executive officers.

Executive Officers

At present, Mr. Dowe is Novex's only executive officer. As a result, Mr. Dowe handles all financial matters with certain bookkeeping and administrative duties being performed by clerical workers and certain accounting and tax-related matters being performed by outside professionals.

Item 11. Executive Compensation

The following table shows all remuneration in excess of \$100,000 paid by Novex and its subsidiaries through May 31, 2003, to all directors and officers:

Table 1

Summary Compensation Table

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Name and Princi- pal Position	Year	Annual compensation -----			Restrict- ed Stock Awards (#)	Securi- ties Underly- ing Options SARs (#)	Awards -----
		Salary (\$)	Bonus (\$)	Other Annual Compen- sation (\$)			LTIP Payout (\$)
Daniel Dowe President	2003	\$180,000					
(1) (2)	2002	\$180,000					
	2001	\$180,000					

(1) Commencing April 1, 1998, Mr. Dowe became an employee of Novex at an annual salary of \$180,000. In the fiscal year ending May 31, 1999, Mr. Dowe received \$150,000 in cash compensation and deferred the remaining \$30,000 until Novex closed the Por-Rok transaction. As of the filing of this registration statement, Novex has paid to Mr. Dowe the balance of the deferred compensation. In addition, Mr. Dowe made an interest-free loan to

19

Novex of \$30,378 in the fiscal year 1999 to cover working capital shortfalls. In June 2001, Mr. Dowe converted his loan into 284,573 shares of common stock and a warrant to purchase 94,858 shares of common stock at a price of \$.20 per share for a three year exercise period. The terms of the conversion were the same as those offered to new investors that purchased common stock and warrants offered by the company through a private placement of securities. Mr. Dowe does not receive any additional remuneration for serving as a director.

(2) On April 1, 1998, Novex entered a three-year employment agreement with Mr. Dowe providing for an additional three years at his option and a minimum annual salary of \$180,000 which the Compensation Committee reviews annually. As of the date of this Form 10-KSB, the Agreement has been amended to include a payment from Novex to Mr. Dowe in the amount of \$800,000 if a Change of Control were to occur. The term "Change of Control" is defined in the Agreement as:

- (i) termination of Mr. Dowe's employment by Novex for reasons other than for cause;
- (ii) a significant reduction by Novex of his position, duties or responsibilities;
- (iii) the removal and/or replacement or any increase in the number of directors of Novex which removal, replacement or increase shall result in a change of 50% or more of the current board of directors, or
- (iv) the accumulation or acquisition by any one shareholder or group of shareholders acting in concert resulting in that shareholder(s)' control over or beneficial ownership of 40% or more of Novex outstanding capital stock.

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

Item 12. Security Ownership of Certain Beneficial Owners

DIRECTORS AND EXECUTIVE OFFICERS

The following table shows the amount of common stock owned as of May 31, 2003 by each director and officer and affiliates and by all directors and officers as a group. Each individual has beneficial ownership of the shares which are subject to unexercised stock options and stock warrants held by him, and each individual has sole voting power and sole investment power with respect to the number of shares beneficially owned:

20

Table 1

Security Ownership of Certain Beneficial Owners and Management

Name and Address of Beneficial owner (1) -----	Amount and Nature of Beneficial Ownership(2) -----	Percent of Class(2) -----
Daniel W. Dowe Director, President, (4)	2,869,690	11.00%
William K. Lavin Chairman, Secretary(5)	105,316	1.22%
Kevin DeMatties, Director	200,000	1.00%
Edward J. Malloy, Director (6)	65,316 -----	.33% -----
All Directors and Officers as a group	3,240,322 -----	12.85% -----

A. The address for Messrs. Dowe, Lavin, Malloy and DeMatteis is 16 Cherry Street, Clifton, New Jersey 07014.

B. The class includes stock options and stock warrants granted to the directors and officers before May 31, 2003 which are deemed by Novex to be acquirable by the beneficial owner within 60 days of the date of this Form 10-KSB by exercise of the option or warrant. As of May 31, 2003 there were 26,245,187 shares issued and outstanding and 27,455,842 on a fully diluted basis. Percentages are stated on a fully diluted basis.

Director Compensation

None of Novex's directors are compensated for serving as directors.

Table 2

Security Ownership of Certain Beneficial Owners (Non-Management)

Name and Address of Beneficial owner -----	Amount and Nature of Beneficial Ownership(1) -----	Percent of Class(1) -----
--	---	---------------------------------

Not Applicable.

21

Item 13. Certain Relationships and Related Transactions

In August 2001, Mr. Dowe's spouse, Janet L. Dowe became an employee of the company serving in an administrative capacity. On occasion, Mrs. Dowe renders legal services to Novex. Any payments to Mrs. Dowe for legal services rendered to Novex are approved by the Board of Directors, except for Mr. Dowe who was not entitled to vote on these matters.

In May 1999, Mr. Daniel Dowe made an interest free loan to Novex in the amount of \$30,378 to provide it with cash flow during the operating deficit that occurred during the last quarter of fiscal 1999. In June 2001, Mr. Dowe converted his loan into 284,573 shares of common stock and a warrant to purchase 94,858 shares of common stock at a price of \$.20 per share for a three year exercise period. The terms of the conversion were the same as those offered to new investors that purchased common stock and warrants offered by the company through a private placement of securities.

David A. Dowe who is the brother of Daniel W. Dowe has made loans to the company and has purchased common stock under the same terms and conditions as other non-affiliated investors that either loaned money to the company or purchased securities..

With respect to the foregoing transactions, Novex believes that the terms of these transactions were as fair to Novex as could be obtained from an unrelated third party. Future transactions with affiliates including loans will be on terms no less favorable than could be obtained from unaffiliated parties and will be approved by a majority of the independent disinterested members of the board of directors.

22

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

	Page
(A) The following financial statements and supplementary data are included in Part II Item 8	
Independent Auditors' Report	F-2
Financial Statements:	
Balance Sheet as of May 31, 2003	F-3
Statement of Operations for the years ended May 31, 2003 and 2002	F-4
Statement of Changes in Shareholders' Deficiency for the year ended May 31, 2003	F-5
Statement of Cash Flows for years ended May 31, 2003 and 2002	F-6

(B) Exhibits to be incorporated herein by reference:

Exhibit No. -----	Description of Exhibit -----
2.1	Plan of Merger of Stratford Acquisition Corp. and the Registrant into the Registrant
3.1(i)	Articles of Incorporation of Stratford Acquisition Corp.
3.1(ii)	Certificate of Incorporation of the Registrant
3.1(iii)	New York Certificate of Merger of Stratford Acquisition Corp. into Registrant
3.1(iv)	Minnesota Certificate of Merger of Stratford Acquisition Corp. into Registrant
3.2	By-Laws
4.1	Specimen Common Stock Certificate
4.2	Form of Class B Warrants
4.3	Form of 10% \$550,000 Convertible Debenture and Stock Warrant Agreement
4.4	Form of 9% \$800,000 Convertible Debenture and Stock Warrant Agreement
4.5	Form of 15% \$250,000 Senior Debenture and Stock Warrant Agreement
4.6	Term Sheets re Director Loans to Company dated July 29, 1998; August 13, 1998; August 20, 1998; August 27, 1998; September 4, 1998; and May 14, 1999
10.1	Employment Agreement between Registrant and Daniel W. Dowe
10.2	Amendment to Employment Agreement between Registrant and Daniel W. Dowe
10.3	Amended and Restated Purchase Agreement between The Sherwin-Williams Company and Registrant
10.4	Form of Promissory Note to Dime Commercial Corp.
10.5	Form of Promissory Note to The Sherwin-Williams Company
10.6	Bill of Sale from The Sherwin-Williams Company to Registrant
10.7	Designation Certificate
10.8	Form of Promissory Notes to Alfonso DeMatteis

Edgar Filing: NOVEX SYSTEMS INTERNATIONAL INC - Form 10KSB/A

- 24.1 Power of Attorney (contained on signature page of this Prospectus).
- 99.1 Battista Agreement
- 99.2 Supercrete N/A Limited Agreement dated December 20, 1996
- (B) Exhibits filed herein:
 - 21.1 Subsidiaries of Novex
 - 31 Certification of Principal Executive and Financial Officer
 - 32 Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

24

SIGNATURES

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

NOVEX SYSTEMS INTERNATIONAL CORPORATION

By: /ss/ Daniel W. Dowe

Daniel W. Dowe, Chief Executive Officer and
Chief Financial Officer

Dated: December 22, 2003

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

		Dated -----
/ss/ Daniel W. Dowe ----- Daniel W. Dowe	Director	December 22, 2003
/ss/ William K. Lavin ----- William K. Lavin	Director	December 22, 2003
/ss/ Edward J. Malloy ----- Edward J. Malloy	Director	December 22, 2003
/ss/ Kevin DeMatteis ----- Kevin DeMatteis	Director	December 22, 2003

