NOVEX SYSTEMS INTERNATIONAL INC
Form 10QSB
May 15, 2002

FORM 10-QSB

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

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2002 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 Identification 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

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 |X| No |_|.

The Company had 26,680,187 shares of its $.001 par value common stock and 1,529,426 shares of its $.001 par value preferred stock issued and outstanding on February 28, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-Q	Incorporated Document
Part II, Item 6	None

NOVEX SYSTEMS INTERNATIONAL, INC.

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PART I

NOVEX SYSTEMS INTERNATIONAL, INC.
BALANCE SHEET
FEBRUARY 28, 2002
(Unaudited)

ASSETS

CURRENT ASSETS:

Accounts receivable, net of allowance for doubtful accounts of $81,990	$ 680,540
Inventories	161,034
Prepaid expenses and other current assets	119,361
Total Current Assets	960,935
PROPERTY, PLANT AND EQUIPMENT - at cost, net	1,252,989
GOODWILL - at cost, net	641,147
	$ 2,855,071

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

CURRENT LIABILITIES:	
Cash overdraft	$ 149,594
Current portion of long term debt	1,834,302
Bank line of credit	574,572
Accounts payable	447,034
Loans payable - shareholder	87,048
Accrued preferred stock dividend payable	91,317
Accrued expenses and other current liabilities	255,097
Total Current Liabilities	3,438,964
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' DEFICIENCY:	
Preferred stock - $0.001 par value, 10,000,000 shares authorized, 1,529,426 shares issued and outstanding	1,529,426
Common stock - $0.001 par value, 50,000,000 shares authorized, 26,680,187 shares issued and outstanding	26,680
Additional paid-in capital	6,370,344
Accumulated deficit	(8,510,342)
Total shareholders' deficiency	(583,893)
	$ 2,855,071

See notes to financial statements.

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

Three Months Ended
February 28,

	2002	2001
NET SALES	$ 404,722	$ 374,559
COST OF GOOD SOLD	254,305	228,432
GROSS PROFIT	150,417	146,127
SELLING, GENERAL AND ADMINISTRATIVE	190,813	237,813
LOSS FROM OPERATIONS	(40,396)	(91,686)
OTHER INCOME (EXPENSES):		
Interest expense	(63,491)	(51,774)
Amortization of debt discount	(3,941)	(16,634)
Gain on change in valuation of put warrant	6,310	--
OTHER EXPENSES, net	(61,122)	(68,408)
LOSS FROM CONTINUING OPERATIONS	(101,518)	(160,094)
DISCONTINUED OPERATIONS:		
Loss from operations of Novex Canada	--	--
Loss on disposal of Novex Canada including operating loss during the phase out period of $102,190	--	--
LOSS FROM DISCONTINUED OPERATIONS	--	--
NET LOSS	(101,518)	(160,094)
LESS: PREFERRED STOCK DIVIDEND	38,235	--
NET LOSS TO COMMON SHAREHOLDERS	$ (139,753)	$ (160,094)
LOSS PER COMMON SHARE, basic and diluted:		
From continuing operations	(0.01)	(0.01)
From discontinued operations	--	--
TOTAL LOSS PER COMMON SHARE, basic and diluted	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted	26,523,667	23,958,155

See notes to financial statements.

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Mont Februa
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (333,988)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities of continuing operations:	
Provision for bad debts	32,153
Depreciation and amortization	105,010
Gain on change in valuation of put warrant	(19,177)
Common stock issued for services	24,753
Amortization of debt discount	41,957
Changes in assets and liabilities, net of the effect from acquisition and disposition:	
Accounts receivable	(410,044)
Inventories	43,220
Prepaid and other current assets	(92,289)
Other assets	--
Accounts payable	(64,531)
Accrued expenses and other current liabilities	139,123
NET CASH USED IN CONTINUING OPERATIONS	(533,813)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	--
NET CASH USED IN OPERATING ACTIVITIES	(533,813)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	--
Acquisition of business, net of cash acquired	--
CASH USED IN INVESTING ACTIVITIES	--
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash overdraft	121,251
Due to factor	--
Proceeds from loans payable - shareholders	57,898
Proceeds from (repayment of) bank line of credit	118,164
Proceeds from notes payable	125,000
Repayment of debt obligations	(69,500)
Proceeds from the sale of common stock	181,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	533,813
NET INCREASE IN CASH	0
CASH AT BEGINNING OF PERIOD	--
CASH AT END OF PERIOD	$ 0

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:	
Interest	$ 127,608
Income taxes	$ --
Non-cash flow and investing and financing activities:	
Conversion of debt to equity	$ 42,868
Common stock issued for assets acquired	$ --
Common stock issued for future services	$ 18,903
Preferred stock dividend	114,489

See notes to financial statements.

NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED FEBRUARY 28, 2002
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operation results for the nine months ended February 28, 2002 are not necessarily indicative of the result that may be expected for the year ended May 31, 2002. The unaudited condensed financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended May 31, 2001.

2. 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 nine months ended February 28, 2002 and 2001 diluted loss per share is the same as basic loss per share since the inclusion of stock options and warrants would be antidilutive.

3. DISCONTINUED OPERATION

In October and December 2000, the Company entered into agreements to sell the assets, except for accounts receivable and the Fiberforce trade name, of its subsidiary, Novex Systems International, Ltd. ("Novex Canada"), for approximately $245,300.

The results of operations and cash flows for Novex Canada has been reclassified as discontinued operations for all periods presented.

Summarized results of the discontinued operation is as follows:

	Nine Months Ended November 30, 2002	2001
Net sales	--	100,643
Loss from operations	--	(48,124)
Loss on disposal	--	(229,056)
Total loss on discontinued operations	--	(277,180)

NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED FEBRUARY 28, 2002
(unaudited)

4. INVENTORIES

Inventories were determined based on the perpetual inventory system and consisted of the following:

	February 28, 2002
Raw Material	$122,225
Finished Goods	38,809
	$161,034

5. NOTE PAYABLE

In the nine month ended February 28, 2002, the Company raised an additional $125,000 from the same holder of the notes payable of $886,000 at May 31, 2001. The $125,000 has been included with the current portion of long-term debt and the note payable has the same terms as those at May 31, 2001.

6. SHAREHOLDERS' DEFICIENCY

As of February 28, 2002, the Company raised $153,000 from the sale of 1,020,001 shares of restricted common stock. Included in the sale of common stock were warrants, which provide the right to purchase one share of common stock for every three shares of common stock purchased. The warrants have an exercise price of $0.20 per share and they expire three years from the date of issuance. The warrants exercise prices were granted at the quoted market price.

During the nine months ended February 28, 2002, the Company issued 261,000 shares of common stock in consideration for financing of $261,000 that occurred in the fiscal year ended May 31, 2001. As a result, the Company valued the common stock based on the quoted market price and recorded a debt discount of $27,733. In addition, the Company converted $42,868 of loan and interest from a shareholder into 285,786 shares of restricted common stock.

As of February 28, 2002, the Company issued 139,038 shares of preferred stock as payment of accrued preferred stock dividend.

NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED FEBRUARY 28, 2002
(unaudited)

In November 2001, the company issued 329,412 shares of restricted common stock for $28,000.

In October 2001, the Company issued 65,000 shares of restricted common stock for services, which was valued at the quoted market price of $0.09 or $5,850.

On September 15, 2001, the Company granted 25,000 employee stock options at an exercise price of $0.20, which was above the quoted market price on the date of grant. The employee stock options expire on September 15, 2004.

During August 2001, the Company issued 70,000 shares of restricted common stock and 75,000 warrants for future consulting services. The common stock was valued at the quoted market price of $0.12 or $8,400. The warrants were valued at $10,503, which was based on the Black-Scholes option pricing model with the following assumptions used: annual dividend of $0; expected volatility of 217%; risk-free interest rate of 3.5%; and an expected life of 3 years. The Company has recorded the value of the common stock and warrant to prepaid expense and will amortize the amounts over the life of the service period.

On June 1, 2001, the Company granted 100,000 stock options to a director of the Company with an exercise price of $0.20 and will expire on June 1, 2004. In addition, the Company granted 61,805 stock options to its employees with an exercise price of $0.25 and will expire on October 1, 2003. The options exercise prices were granted at the quoted market price.

7. CONTINGENCIES

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.

In March, 2001, Dime Commercial Corp. commenced a legal action against Novex to secure payment on the two outstanding notes and a separate action to seek foreclosure on the real property in an attempt to force the company to pay-off the notes in a reasonable time period. Since the filing of the actions, the court in the legal proceeding for payment on the notes provided Novex with injunctive relief whereby Novex could retain payments from customers on account and use a new bank account to funds its operations until the litigation is resolved. Novex has yet to file a response to the foreclosure action and with its filing will seek further injunctive relief. Novex believes that its efforts to secure refinancing of the Dime notes will materialize although as of the date of this filing there are no firm commitments outstanding from prospective investors.

In addition, some small vendor accounts have commenced actions against Novex to secure

payments on aged accounts payable and the Company does not believe these actions would have materially adverse consequences to the Company, since generally enters into payment

plans with creditors that believe that the only recourse for payment is through legal action.

8. RECENT ACCOUNTING PRONOUNCEMENT

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, and the reporting provisions of APB Opinion No. 30, Reporting the Results of Operation - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions for the Disposal of a Segment of a Business. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company must adopt this standard on June 1, 2002.

The most significant changes made by SFAS No. 144 are (1) goodwill is removed from its scope and therefore, it eliminates the requirements of SFAS 121 to allocate goodwill to long lived assets to be tested for impairment, and (2) it describes a probability-weighted cash flow estimation approach to apply to situations in which alternative course of action to recover the carrying amount of long lived assets are under consideration or a range is estimated for the amount of possible future cash flows. The Company is in the process of analyzing the impact of the adoption of this statement on its financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the information contained in the Financial Statements and the Notes to the financial statements appearing elsewhere in this Form 10-QSB. The Financial Statements for the nine month periods ended February 28, 2002 and February 28, 2001, included in this Form 10-QSB are unaudited; however, this information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary to present a fair statement of the results for the interim period.

Results of Operations

Nine months ending February 28, 2002 vs. February 28, 2001

In the nine month period ended February 28, 2002, Novex had net sales of $1,584,276 versus $1,376,953 in the corresponding nine month period in 2001. The increase in sales was 15% over the corresponding period. Cost of goods sold in this period was $924,229, which generated a gross margin of 42%, versus 35% in 2000. The increase in the gross margin was attributable to increased sales which reduces fixed factory overhead charges as a percentage of total sales, larger orders of higher margin products to the same customer and less factory overtime. Novex incurred general and administrative costs of $781,109, which resulted in a loss from operations of $121,062 in this period. In this period, Novex incurred $190,146 in interest expense, $41,957 of amortization of debt discount and a gain on change in the valuation of a put warrant of $19,177. For the nine month period ending February 28, 2002 the company's operating loss before interest, taxes, depreciation and amortization (EBITDA) was $16,052 versus a loss of $155,987 in the previous nine month period. The increase in sales, cost of goods sold and general operating expenses during this period was attributable primarily to the company's improvement of its sales and marketing efforts.

On February 28, 2002, Novex had $960,935 in current assets, which consisted primarily of inventory of $161,034 and accounts receivable of $680,540. The company's property, plant and equipment was $1,252,989, net of accumulated depreciation of $207,750 and goodwill of $641,146 net of accumulated amortization of $116,559.

Three months ending February 28, 2002 vs. February 28, 2001.

In the three month period ended February 28, 2002, Novex had net sales of $404,722 versus $374,559 in the corresponding three month period in 2001. The increase in sales was 8.1% over the corresponding period. Cost of goods sold in this period was $254,305, which generated a gross margin of 37%, versus 39% in 2001. Novex incurred general and administrative costs of $190,813, which resulted in a loss from operations of $40,396 in this period. The decrease in selling, general and administrative costs versus the previous period was attributable to lower sales commissions due to the termination of certain manufacturers' representatives and the company's overall plan to reduce operating expenses. In this three month period, Novex incurred $63,491 in interest expense, $3,941 of amortization of debt discount and a gain on change in the valuation of a put warrant of $6,310. For the three month period the company's operating loss before interest, taxes, depreciation and amortization (EBITDA) was $6,442, which includes $18,000 of accrued royalty payments to the former shareholders of the Sta-Dri Company whom receive an additional $6,000 per month up to August, 2002, if the company's stock price is below $1.00 per share for a twenty day trading period. The increase in sales and cost of goods sold during this period was attributable primarily to the company's improvement of its sales and marketing efforts.

Liquidity and Financial Resources at February 28, 2002

As of February 28, 2002, Novex had $3,438,964 in current liabilities. Of this amount, $574,572 was the balance on Novex's secured revolving line of credit with Dime Commercial Corp. which is used to fund the Company's operations and a term loan of $704,667 outstanding with Dime and $1,011,000 in bridge loans outstanding to a shareholder and director. Novex had accounts payable of $447,034, accrued expenses of $255,097 and a cash overdraft of $149,594. The accrual for preferred stock dividend payable is $91,317 and is payable in shares of preferred stock not cash.

In late May through August 2001 the company offered for sale restricted shares of its common stock at $.15 per share and a warrant to purchase one (1) share of common stock for every three shares of common stock purchased in the offering. The warrants have an exercise price of $.20 per share and a three year expiration period. As of the filing of this

Form 10-QSB the company raised $153,000. In addition, Novex's CEO and President, Daniel W. Dowe, entered into an agreement with the company to convert all loans he made to the company into equity under the same terms and conditions offered to investors in the aforementioned private offering. The total amount converted was $42,686.

On December 21, 2000, Novex obtained from a private investor a six-month secured bridge loan in the amount of $600,000 ("Bridge Note") which has been extended by the investor to provide the company additional time to improve its sales and secure take-out financing on terms that are mutually beneficial to the company and the new investor(s). The Bridge Note holder owns approximately 4% of the company's common stock and is equally concerned with excessive dilution. The bridge loan bears interest at a rate of 10% per annum. In exchange for the bridge financing, Novex issued 600,000 shares of its common stock to the investor. The Bridge Note is secured by the same assets as, and is subordinated to, the Dime Note (discussed below). During the period February 21, 2001, through December 31, 2001, the same private investor made four additional bridge loans of $411,000 for which he received 286,000 shares of common stock as of November 30, 2001 and another 125,000 shares of common stock as of December 31, 2001. The terms of the additional bridge loans are identical to those of the Original Bridge Note. He also made an equity investment of $50,000 on January 21, 2001 for which he received 625,000 shares of Novex' common stock.

The current portion of the long-term debt consists of a three year term loan and put warrant totaling $708,401 (originally $890,000) that was made by Dime Commercial Corp. to enable the Company to acquire the Por-Rok Unit (the "Dime Note"). The remaining portion of the purchase price for the Por-Rok Unit was paid with the Sherwin-Williams Note, which has been converted, into 1,390,388 preferred shares. Included in the current portion of long-term debt is a debenture payable for $125,000 that is past due as it matured on May 31, 1999. This $125,000 note is the remaining balance on a bridge loan of $250,000 that was purchased by Novex' largest shareholder, which is a private equity fund managed by Quilcap Corporation.

The Dime Note is secured by all the assets that are located at the Por-Rok operation at 16 Cherry Street, Clifton, New Jersey. These assets include the land (1.58 acres), the main manufacturing building and the two warehouses, including all the equipment in these buildings and all trademarks owned by Novex. In addition, the revolving line of credit that Novex has with Dime is secured by the account receivable generated at the Por-Rok unit and all inventory.

Effective March 1, 2002, Dime had terminated its funding on the two notes and has commenced collection actions to secure repayment of the two loans. At the time the loans were called the principal and interest payments were current, however Dime had cited covenant defaults in its demand letter to Novex. Novex is actively seeking to refinance the two Dime loans with either new bank financing or through the use of the proceeds of a possible sale and leaseback transaction that the company is considering. Novex owns all its real property, which has been recently appraised for $1,200,000, but has a book value of $784,953. Novex's equipment has a book value of $402,278. Novex believes that a sale and leaseback transaction will provide sufficient net proceeds to pay-off the Dime notes in full.

For the quarter ended February 28, 2002, Novex has been able to increase sales volume while selling, general and administrative expenses have been slightly reduced when compared to the quarter ended February 28, 2001. The increase in sales has resulted in higher levels of account receivable as well as accounts payable and accrued expenses. The increase in the gross margin and the lower loss from operations resulted from higher sales, lower levels of plant labor and inventory and by allocating fixed factory overhead charges over a greater volume of sales.

The company has negative cash flow from continuing operations for the quarter ended February 28, 2002 compared to a higher negative cash flow for continuing operations for the quarter ended February 28, 2001. Thus, while future cash flows from continuing operations should continue to improve, Novex will require an increase in sales volume to meet all its obligations including operating and financial charges, otherwise the company will not have sufficient cash flow to cover its operating, investing and debt payment requirements. Therefore, Novex has developed plans to improve profitability and cash flows and to continue to raise capital to sustain itself as it grows into a viable entity.

To improve Novex's profitability, management is undertaking a number of initiatives to increase sales and reduce expenses. In addition, management is aggressively pursuing sales of the Por-Rok, Dash Patch, Sta-Dri and Fiberforce

products to large home center stores and major cooperative retailers of building materials.

To improve cash flow, Novex has endeavored to procure more favorable payment terms from vendors by extending the payment due date for raw materials and supplies used in manufacturing. These vendors have been willing to extend only limited credit to Novex since its acquisition of the Por-Rok product line from The Sherwin-Williams, due to the company's small size. The limited credit terms increased our need to use cash for operations.

If these efforts do not generate additional sales to enable Novex to meet all of its operating and financing expense requirements, it would then seek additional financing from third-party sources. Although the Novex's assets are fully secured by loans outstanding to Dime Commercial Corp. and Bridge Notes, Novex would seek to raise additional capital through the sales of unsecured debt securities, unsecured debt combined with equity securities or preferred and common stock. It is likely, however, that any unsecured debt financing would carry a higher interest rate than secured financing or that any equity financing might be on terms which are not favorable to Novex and which are dilutive to existing shareholders.

Recent Accounting Pronouncement

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, and the reporting provisions of APB Opinion No. 30, Reporting the Results of Operation - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions for the Disposal of a Segment of a Business. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company must adopt this standard on June 1, 2002.

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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. For these reasons, while Novex will always have exposure to inflationary risks, it does not believe that inflation will have any materially significant impact on its operations in the near future.

Certain Factors That May Affect Future Results

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth below and elsewhere in this report. The Company's future operating results may be affected by a number of factors, including general economic conditions in both foreign and domestic markets, cyclical factors affecting the Company's industry, lack of growth in the Company's end-markets, and the Company's ability to develop, manufacture, and sell both new and existing products at a profitable yet competitive price.

The industry in which the Company competes is highly competitive and the Company expects such competition to continue in the future. Most of the Company's competitors are larger than the Company and have substantially greater financial, technical, marketing and manufacturing resources.

Our operations are concentrated in a single building in Clifton, New Jersey. Our operations could be interrupted by fire, earthquake, power loss, telecommunications failure and other events beyond our control. We do not have a detailed disaster recovery plan. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur and any losses or damages incurred by us could have a material adverse effect on our business.

Part II Other Information

Item 1. Legal Proceedings

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. The plaintiff submitted a motion for summary judgment, which the court denied. Novex has raised several defenses to this action and believes that plaintiff's claims are without merit. Novex has also asserted multiple counterclaims against the plaintiff and, in December, 1999, it asserted multiple claims against two third-party defendants, Herbert Adams, a former consultant to the company, and Colin Raynor, a former director and former outside counsel to the company Novex has alleged that the plaintiff and the two third-party defendants (none of whom are presently affiliated with Novex) had caused the company to issue them stock for work that was never done and at a time when current

management believes that fraudulent activities were being undertaken which caused the company's stock price to be overinflated. All three individuals are claiming that they received stock as compensation for services rendered. When Novex investigated the matter it found virtually no records of any tangible service. Their actions and omissions caused the U.S. Securities and Exchange Commission in or about 1997 to commence an investigation of the company, then known as Stratford Acquisition Corp. It is Novex's understanding that the investigation is still pending and the Company has no information as to what action, if any, the SEC may take pursuant to the investigation. Mel Greenspoon vs. Stratford Acquisition Corporation, et. al., Ontario Court (General Division), Index No. 97-CV-126814.

In March 2001, Dime Commercial Corp. commenced a legal action against Novex to secure payment on the two outstanding notes and a separate action to seek foreclosure on the real property in an attempt to force the company to pay-off the notes in a reasonable time period. Since the filing of the actions, the court in the legal proceeding for payment on the notes provided Novex with injunctive relief whereby Novex could retain payments from customers on account and use a new bank account to funds its operations until the litigation is resolved. Novex has yet to file a response to the foreclosure action and with its filing will seek further injunctive relief. Novex believes that its efforts to secure refinancing of the Dime notes will materialize although as of the date of this filing there are no firm commitments outstanding from prospective investors.

Some small vendor accounts have commenced actions against Novex to secure payments on aged accounts payable and the company does not believe these actions would have materially adverse consequences to the company, since generally enters into payment plans with creditors that believe that the only recourse for payment is through legal action. In addition, as part of the refinancing of the Dime notes, the company anticipates earmarking sum of the proceeds for paydown of outstanding trade debt.

Item 2. Changes in Securities. None.

Item 3. Defaults Upon Senior Securities. See Item 1. above.

Item 4. Submission of Matters to a Vote of Security Holders. None.

Item 5. Other Information. None.

Item 6. Exhibits and Reports on Form 8-K. The Company filed a Form 8-K on March 11, 2002 to notify interested parties of the demand letter issued by Dime.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, Novex Systems International Incorporated has duly caused this report to be signed on its behalf by the undersigned person who is duly authorized to sign on behalf of the Registrant and as chief accounting officer.

NOVEX SYSTEMS INTERNATIONAL, INC.

By: /ss/ Daniel W. Dowe

Daniel W. Dowe
President and Chief Executive Officer

Date: May 14, 2002