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Statements of Operations for the nine months and three months ended February 29, 2004 and February 28, 2003.....	F-2
Statements of Cash Flows for the nine months ended February 29, 2004 and February 28, 2003.....	F-3
Notes to Financial Statements .....	F-4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	1
Item 3. Controls and Procedures .....	4
Part II Other Information	
Item 1. Legal Proceedings.....	4
Item 2. Changes in Securities.....	4
Item 3. Defaults Upon Senior Securities.....	4
Item 4. Submission of Matters to a Vote of Security Holders.....	4
Item 5. Other Information.....	5
Item 6. Exhibits and Reports on Form 8-K.....	5

ii

PART I

	Page No.
Item 1. Financial Information (Unaudited)	
Item 1. Financial Statements (Unaudited)	
Balance Sheet as of February 29, 2004 .....	F-1
Statements of Operations for the nine months and three months ended February 29, 2004 and February 28, 2003.....	F-2
Statements of Cash Flows for the nine months ended February 29, 2004 and February 28, 2003.....	F-3
Notes to Financial Statements .....	F-4

NOVEX SYSTEMS INTERNATIONAL, INC.  
BALANCE SHEET  
February 29, 2004

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ASSETS

CURRENT ASSETS:

Cash	\$ 137,194
Royalty/Licensee receivable	13,385
	-----
Total Current Assets	150,579

INTANGIBLES - at cost, net	553,811
	-----
	\$ 704,390
	=====

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

Current portion of long term debt	1,570,958
Accounts payable	617,624
Loans payable - shareholder	126,563
Accrued expenses and other current liabilities	379,850
Accrued payroll taxes	420,533
	-----
Total Current Liabilities	3,115,528
	-----

COMMITMENTS AND CONTINGENCY

SHAREHOLDERS' DEFICIENCY:

Preferred stock - \$0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	0
Common stock - \$0.001 par value, 40,000,000 shares authorized 25,245,187 shares issued and outstanding	25,245
Additional paid-in capital	8,058,400
Accumulated deficit	(10,494,783)
	-----
Total shareholders' deficiency	(2,411,138)
	-----
	\$ 704,390
	=====

See notes to financial statements.

F-1

NOVEX SYSTEMS INTERNATIONAL, INC.  
STATEMENTS OF OPERATIONS

Three Months Ended February 29,	February 29,	Nine Month
2004	2003	2004
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	(Unaudited)	(Unaudited)	(Unaudite
NET SALES	40,650	110,948	171,3
COST OF GOODS SOLD	0	72,605	
	-----	-----	-----
GROSS PROFIT	40,650	38,343	171,3
SELLING, GENERAL AND ADMINISTRATIVE	104,484	173,450	198,9
	-----	-----	-----
INCOME /(LOSS) FROM OPERATIONS	(63,834)	(135,107)	(27,6
	-----	-----	-----
OTHER INCOME( EXPENSES) :			
Interest income (expense)	(44,386)	(114,539)	(128,7
Gain on property conveyance	0	0	393,5
Write off of financing costs		(65,547)	
	-----	-----	-----
OTHER EXPENSES, net	(44,386)	(180,086)	264,7
	-----	-----	-----
NET INCOME (LOSS)	(108,220)	(315,193)	237,1
Less: Preferred stock dividend	0	38,235	45,2
	-----	-----	-----
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	(108,220)	(353,428)	191,9
	=====	=====	=====
INCOME (LOSS) PER COMMON SHARE, basic and diluted	\$ (0.00)	\$ (0.01)	\$ 0.
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted	25,245,187	26,870,187	25,745,1
	=====	=====	=====

See notes to financial statements.

F-2

NOVEX SYSTEMS INTERNATIONAL, INC.  
STATEMENTS OF CASH FLOWS

	Nine Months Ended Februa	
	2004	200
	-----	-----
	(Unaudited)	(Unaud
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 237,129	\$ (770
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	37,884	101
Gain on property conveyance	(393,500)	
Reversal of excess accruals	(12,204)	
Amortization of debt discount	0	
Changes in assets and liabilities, net of the effect from acquisition:		

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Accounts receivable	68,169	145
Royalty/Licensee receivable	(13,385)	(111)
Inventories	--	156
Prepaid and other current assets	--	113
Accounts payable	97,513	184
Accrued expenses and other current liabilities	21,722	65
Accrued payroll taxes	43,698	118
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	87,026	3
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	0	(6)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash overdraft		13
(Repayment of ) proceeds from loans payable - shareholders	44	(15)
(Repayment of) proceeds from bank line of credit		(135)
Proceeds from debt financing	46,959	125
Repurchase of common stock		(9)
(Repayment) of debt obligations		
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	47,003	(21)
	-----	-----
NET INCREASE(DECREASE) IN CASH	134,029	(24)
CASH AT BEGINNING OF YEAR	3,165	24
	-----	-----
CASH AT END OF PERIOD	\$ 137,194	\$
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 74,445	\$ 58
	=====	=====
Income taxes	0	
	=====	=====
Non-cash flow and investing and financing activities:		
Accrued preferred stock dividend	0	76
	=====	=====
Foreclosure of property and equipment	767,298	
	=====	=====
Reversal of accrued liabilities related to foreclosure	72,113	
	=====	=====
Satisfaction of bank debt via foreclosure	1,118,686	
	=====	=====
Contribution of preferred and common equity	\$ 1,645,133	\$
	=====	=====

See notes to financial statements.

F-3

NOVEX SYSTEMS INTERNATIONAL, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
NINE MONTHS ENDED FEBRUARY 29, 2004

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(UNAUDITED)

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### NOTE 1. BASES OF PRESENTATION

The accompanying unaudited condensed financial statements of Novex Systems International, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. 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 considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results for expected for the nine months ended February 29, 2004 are not necessarily indicative of the results that may be expected for the year ending May 31, 2004. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended May 31, 2003. Per share data for the periods are based upon the weighted average number of shares of common stock outstanding during such periods, plus net additional shares issued upon exercise of options and warrants.

#### NOTE 2. ACCOUNTING POLICIES

##### GOING CONCERN

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, and has a negative working capital and shareholder deficiency as of February 29, 2004. The Company is also in default of its bank lines of credit and in arrears with paying payroll taxes. These factors raise substantial doubt as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

F-4

#### STOCK-BASED COMPENSATION PLANS

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion 25, (APB25) Accounting for Stock Issued to Employees and the related interpretation, for which no compensation cost is recorded in the statement of operations for the estimated fair value of stock options issued with an exercise price equal to the fair value of the common stock on the date of grant. Statement of Financial Accounting Standards No. 123 (SFAS 123) Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148 (SFAS 148) Accounting for Stock-Based Compensation - Transition and Disclosure, requires the companies, which do not elect to account for stock-based compensation as prescribed by this statement, disclose the pro-forma effects on earnings and earnings per share as if SFAS 123 has been adopted. No options or warrants have been granted to employees, officers and directors during fiscal year ended 2003 and through February 29, 2004.

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### NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB revised SFAS No. 132 Employers' Disclosures about Pensions and Other Post Retirement Benefits. This revision requires additional disclosures to those in the original SFAS No. 132 about assets, obligations, cash flows and net periodic benefit cost of deferred benefit pension plans and other deferred benefit post-retirement plans. The required information should be provided separately for pension plans and for other post-retirement benefit plans. This statement revision is effective for fiscal year ending after December 14, 2003 and interim periods beginning after December 15, 2003. The adoption of this revision is not expected to have a material impact on our results of operations, financial position or disclosures.

### NOTE 3. GAIN ON PROPERTY CONVEYANCE

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. In April 2003 Dime received a judgment for \$1,336,000 and a judgment in foreclosure on Novex's real property, which was conveyed to Dime, along with Novex's personal tangible property located at the real property on July 1, 2003 in what Novex believed to be full satisfaction of the judgment. On January 16, 2004, Novex, certain directors, officers and key shareholders of Novex common stock signed a definitive settlement agreement. As of the filing of this Form 10QSB, the signatures of all parties to the agreement had been obtained except for Dime's whose signature is imminent inasmuch as Dime's counsel prepared the settlement agreement.

### NOTE 4. LICENSE AGREEMENT

On January 31, 2003, Novex entered into a licensing agreement, until December 2004, with C.G.M., Inc. of Ben Salem, Pennsylvania "Licensee" to market and distribute Novex's Por-Rok, Dash Patch and Sta-Dri products in exchange for monthly royalty payments ranging from 15% to

F-5

25% of the net invoice value to the customer. In addition the Licensee shall purchase at cost the inventory on hand from the Company, payable in three installments through March 15, 2003. The Licensee has the right to terminate the agreement within 180 days from the commencement date of the agreement. In the event the Licensee elects to terminate this licensing agreement, the Company shall be obligated to purchase all inventory that cannot be used by the Licensee due to the termination of the licensing agreement. Licensor reserves the right to terminate the licensing 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 or voluntary bankruptcy.

### NOTE 5. DEBT AND EQUITY TRANSACTION

A) In September 2002, the Dime Bank put option agreement expired. The remaining recorded value of such put option liability of \$22,364 was reclassified to additional paid in capital.

In December 2002, a noteholder signed an agreement to forbear from pursuing any claims against Novex to seek repayment of outstanding principal and interest due on promissory notes purchased from Novex. In consideration for signing the agreement, Novex agreed to pay the noteholder \$50,000 on the additional

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condition that the noteholder tender to Novex for cancellation, 625,000 shares of Novex'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 the common stock.

B) 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 1,644,133 shares of preferred stock, including accrued dividends after May 31, 2002. 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 share, or a face value of \$1,644,133, and has reduced its issued and outstanding common stock by 1,000,000 shares to 25,245,187. The recorded values of the preferred shares and common shares have been recorded as contributed capital.

### NOTE 6. INTANGIBLES

The intangible assets have been recharacterized pursuant to SFAS 142 from "Goodwill" to be "Intangibles", since such intangibles are actually comprised of trademarks, acquired proprietary technology and customer lists. These intangibles are being amortized over a fifteen year life on a straight line basis. The Company continues to periodically review these long-lived assets for

F-6

impairment, whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered.

F-7

### 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 period ending February 29, 2004, 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 29, 2004 vs. February 28, 2003

In the nine month period ended February 29, 2004, Novex had net sales of \$171,347 versus \$971,246 in the corresponding nine month period in 2003. Cost of goods sold in this period was \$0 which generated a gross margin of 100% versus 31% in 2003. The material change in sales and gross margin was attributable to Novex' conversion of its business from a manufacturing company into a licensing



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company. On February 1, 2003, Novex entered into an exclusive licensing agreement with CGM, Inc., whereby CGM fulfills all orders for products sold under the trade names that Novex continues to own and thereafter pays Novex a cash royalty on sales ("Licensing Agreement"). All royalty payments are based on actual sales in the previous month and are paid on a monthly basis.

Going forward, and assuming there are no material changes in Novex's business, the operating results will appear similar to the nine month period ending February 29, 2004 than in previous reporting periods whereby Novex recorded much higher net sales and costs of sales that are more in line with a manufacturing entity.

In this nine month period, Novex recorded a loss from operations of \$27,620 and a net income to common shareholders of \$191,915. The net profit was attributable primarily to a one time gain on the disposition of assets of \$393,500. On July 1, 2003, Novex's former bank, Washington Mutual (formerly Dime Commercial Corp.) ("Dime") took title to the company's former manufacturing facility in Clifton, New Jersey as satisfaction of a judgment that the bank secured earlier this year in the amount of \$1,336,000. In January Novex and Dime entered into a definitive settlement agreement to terminate all litigation. This settlement agreement is being held in escrow and will be released from escrow upon the earlier of: (a) the closing date on Dime's resale of the property, or (b) twelve months from the date of the settlement agreement. We have been advised by Novex's outside counsel that Dime has entered into a definitive agreement to sell the property to a third party and that the anticipated closing date will be in late April. Novex has no control over this resale transaction and cannot give any assurances that it will close on a timely basis, or even close at all. Notwithstanding this transaction, upon the conclusion of the twelve month period, the settlement agreement will be released from escrow, even if the property is not resold.

In the nine month period, Novex incurred financing charges of \$128,751. Until Novex can either refinance its outstanding debt, or merge with another company which will include a refinancing of the debt, it will continue to accrue inordinate debt charges. In lieu of converting its redeemable convertible preferred shares into common stock, on September 3, 2003, The Sherwin-Williams Company forfeited its ownership of all preferred shares of Novex, including all accrued and unpaid dividends that were payable in-kind in additional shares of preferred stock. This forfeiture terminated all future dividends and will result in lower financing charges going forward.

Novex incurred selling, general and administrative costs of \$198,967.

On February 29, 2004, Novex had \$150,579 in current assets, which consisted primarily of royalty receivables of \$13,385 and cash of \$137,194, of which Novex was required to pay over to its licensee, CGM, the sum of \$122,708. Due to Novex being listed as the contract vendor with The Home Depot, payments for goods bearing Novex's tradenames had to be paid directly to Novex, even though CGM produced, shipped and invoiced the orders to The Home Depot. Upon the clearance of the funds in the ordinary course of business, Novex transmitted the entire payment to CGM. Novex also has intangible assets of \$553,811, which represents the book value of its trademarks, trade names and customer list, which collectively are the assets that generate the royalty income that the company earns.

Three months ending February 29, 2004 vs. February 28, 2003

In the three month period ended February 29, 2004, Novex had net sales of \$40,650, versus \$110,948 in the corresponding three month period in 2003. The

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material change in sales and gross margin was attributable to Novex having entered into the Licensing Agreement. Cost of goods sold in this period was \$0 which generated a gross margin of 100% versus 35% in 2003.

Due to the change in its business operations, selling, general and administrative charges in this three month period were only \$104,484, versus \$173,450 in the corresponding three month period in 2003. The elimination of accrued interest and bank charges from Dime in the first fiscal quarter, also resulted in lower financing charges in this quarter in 2003. The change in our business has enabled Novex to improve its operations, even though the financing charges are causing Novex to generate a net loss.

### Liquidity and Financial Resources at February 29, 2004

As of February 29, 2004 Novex had \$3,115,528 in current liabilities. Of this amount, \$2,075,293 is due to four shareholders that loaned funds to the company since 1998. The remaining liabilities are accounts payable of \$617,624 and various taxes payable of \$420,533. The company has filed an offer and compromise application with the federal government and will be doing the same with the state of New Jersey this quarter to address the tax liabilities.

2

On December 21, 2000, Novex obtained from a private investor, who is referenced above as one of four shareholders, 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 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 Novex assets. During the period from February 21, 2001, through October 4, 2001, the same private investor made three additional bridge loans of \$411,000 for which he received 286,000 shares of common stock as of November 30, 2001 and another 25,000 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. As part of a forbearance agreement that Novex and the holder entered into the 625,000 shares of common stock were tendered back to the company for cancellation.

Novex's management is exploring different alternatives to refinancing its debt, including the prospects of acquiring another company that could benefit from Novex's current royalty stream and publicly-traded status.

### 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 in the manufacturing of Novex's products are available locally through many sources and are for the most part commodity products.

### 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

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and liabilities at the 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

3

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 in exchange for a release from its debts to Dime. 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 3. Controls and Procedures

#### (A) Evaluation of Disclosure Controls and Procedures

Within the 90 days prior to the date of this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's President and Acting Treasurer of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Exchange Act Rule 13a-14. Based upon that evaluation, the President and Acting Treasurer concluded that the Company's disclosure controls and procedures are effective in timely alerting the Company to material information required to be included in the Company's periodic SEC

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filings relating to the Company.

### (B) Changes in Internal Controls

There were no significant changes in the Company's internal controls or in the other factors that could significantly affect these internal controls subsequent to the date of our most recent evaluation.

4

## Part II Other Information

### Item 1. Legal Proceedings

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. In April, 2003 Dime received a judgment for \$1,336,000 and a judgment in foreclosure on Novex's real property, which was conveyed to Dime, along with Novex's personal tangible property located at the real property on July 1, 2003 in what Novex believes to be full satisfaction of the judgment.

On January 13, 2004, Dime, Novex, certain directors, officers and key shareholders of Novex common stock signed a definitive settlement agreement. See discussion in Part I, Item 2 above.

One vendor, which is also a shareholder, commenced an action against Novex and received a judgment for \$95,000 for unpaid cash payments that were required to be made on a monthly basis, plus purchased inventory when Novex acquired the Sta-Dri assets from the former Sta-Dri Company.

A former shareholder, who has a loan outstanding to Novex of \$125,000, filed a lawsuit against Novex and its president seeking repayment on the loan.

A shareholders and lender to Novex that also filed a lawsuit in March against Novex and its president seeking payment on three loans aggregating \$325,000 that were personally guaranteed by Novex's president. The loans evidence advances that this party made on a real estate sale and leaseback transaction that was to close in 2002, but which the lender unilaterally terminated one day prior to closing.

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 more senior creditors have priority rights to Novex's collateral and no other creditors can threaten the company or its assets without the approval of these senior creditors.

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. None.

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 Company as its principal executive officer and principal financial officer.

NOVEX SYSTEMS INTERNATIONAL, INC.

By: /ss/ Daniel W. Dowe

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Daniel W. Dowe

Chief Executive Officer and Chief Financial Officer

Date: April 19, 2004