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NOVEX SYSTEMS INTERNATIONAL INC
 Form 10QSB
 November 12, 2004

FORM 10-QSB

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
 ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2004.

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.)

42 Forest Lane	Bronxville, New York	10708
(Address of Principal Executive offices)		(Zip Code)

Registrant's telephone number, including area code 914-441-3591

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. .

The company had 25,245,187 shares of its \$.001 par value common stock and no
 shares of its \$.001 par value preferred stock issued and outstanding on August
 31, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

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

NOVEX SYSTEMS INTERNATIONAL, INC.

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NOVEX SYSTEMS INTERNATIONAL, INC.
BALANCE SHEET
August 31, 2004

ASSETS

CURRENT ASSETS:

Cash	\$ 21,100
Royalty/Licensee receivable	17,912

Total Current Assets	39,012

INTANGIBLES - at cost, net	528,555

	\$ 567,567
	=====

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

Current portion of long term debt	\$ 1,570,958
Accounts payable	445,299
Loans payable - shareholder	156,183
Accrued expenses and other current liabilities	514,864
Accrued payroll taxes	403,677

Total Current Liabilities	3,090,981

COMMITMENTS AND CONTINGENCY --

SHAREHOLDERS' DEFICIENCY:

Preferred stock - \$0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	--
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	(10,607,059)

Total shareholders' deficiency	(2,523,414)

\$ 567,567
=====

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See notes to financial statements.

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NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS

	Three Months Ended August 31,	
	2004	2003
	-----	-----
	Unaudited	Unaudited
ROYALTY REVENUE	55,276	75,804
COST OF GOODS SOLD	0	0
	-----	-----
GROSS PROFIT	55,276	75,804
SELLING, GENERAL AND ADMINISTRATIVE	115,139	62,149
	-----	-----
INCOME (LOSS) FROM OPERATIONS	(59,863)	13,655
	-----	-----
OTHER INCOME(EXPENSES) :		
Interest expense	(41,380)	(40,986)
Gain on property conveyance	0	393,500
	-----	-----
OTHER EXPENSES, net	(41,380)	352,514
	-----	-----
NET INCOME (LOSS)	(101,243)	366,169
Less: Preferred stock dividend	0	(45,214)
	-----	-----
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	(101,243)	320,955
INCOME (LOSS) PER COMMON SHARE, basic and diluted	\$ (0.00)	\$.01
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON		
SHARES OUTSTANDING, basic and diluted	25,245,187	26,245,187
	=====	=====

See notes to financial statements.

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NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

Three Months ended Au

2004 20

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	----- (Unaudited)	----- (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (101,243)	\$ 3
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of goodwill	12,628	
Gain on property conveyance	--	(3
Reversal of excess accruals	--	(
Changes in assets and liabilities, net of the effect from acquisition:		
Accounts receivable	--	
Royalty/Licensee receivable	18,501	(
Accounts payable	22,173	
Accrued expenses and other current liabilities	63,001	(
Accrued payroll taxes	--	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	----- 15,060 -----	----- ----- -----
CASH FLOWS FROM INVESTING ACTIVITIES:	----- -- -----	----- ----- -----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable - shareholders	----- 5,861 -----	----- ----- -----
NET INCREASE IN CASH	20,920	
CASH AT BEGINNING OF YEAR	----- 180 -----	----- ----- -----
CASH AT END OF PERIOD	\$ 21,100 =====	\$ ----- =====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ -- =====	\$ ----- =====
Income taxes	-- =====	----- =====
Non-cash flow and investing and financing activities:		
Foreclosure of property and equipment	----- -- -----	----- 7 -----
Reversal of accrued liabilities related to foreclosure	----- -- =====	----- ----- =====
Satisfaction of bank debt via foreclosure	----- -- =====	----- 1,1 =====

See notes to financial statements.

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NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2004
(UNAUDITED)

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1. BASIS 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 expected for the three months ended August 31, 2004 are not necessarily indicative of the results that may be expected for the year ending May 31, 2005. 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, 2004. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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 August 31, 2004. The Company is also in arrears with paying payroll taxes by several months. These factors raise substantial doubt as to 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 financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

b. STOCK-BASED COMPENSATION

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

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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, to disclose the pro-forma effects on earnings and earnings per share as if SFAS 123 has been adopted. No

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options or warrants have been granted to employees, officers and directors during fiscal year ended 2004 and through August 31, 2004.

c. RECENT ACCOUNTING PRONOUNCEMENTS

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.

Throughout 2003, the FASB released numerous proposed and final FASB Staff Positions (FSPs) regarding FIN 46, which both clarified and modified FIN 46's provisions. In December 2003, the FASB issued Interpretation No. 46 (FIN 46-R), which will replace FIN 46 upon its effective date. FIN 46-R retains many of the basic concepts introduced in FIN 46; however, it also introduces a new scope exception for certain types of entities that qualify as a "business" as defined in FIN 46-R, revises the method of calculating expected losses and residual returns for determination of the primary beneficiary, includes new guidance for assessing variable interests, and codifies certain FSPs on FIN 46. FIN 46-R does not have a material impact on the Company's Financial Statements.

3. GAIN ON PROPERTY CONVEYANCE

In March 2002, 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. The real property was conveyed to Dime, along with Novex's personal tangible property located at the real property, all with a recorded value of \$767,298, 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.

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4. ROYALTY 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 manufacture, market and distribute Novex's Por-Rok, Dash Patch and Sta-Dri products in exchange for monthly royalty payments ranging from 15% to 25% of the net invoice value to the customer. The Licensee purchased at cost the inventory on hand from the Company, payable in three installments through March 31, 2003. Although the Licensee had the right to terminate

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the agreement within 180 days from the commencement date of the agreement, the Licensee did not exercise that right. Had the Licensee elected to terminate this licensing agreement, the Company would have been 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.

5. DEBT AND EQUITY TRANSACTION

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 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 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.

6. INTANGIBLES

Intangibles 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. The intangible assets have been re-characterized 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 impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered.

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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 three month period ending August 31, 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

Three months ending August 31, 2004 vs. August 31, 2003

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In the three month period ended August 31, 2004, Novex had net sales of \$55,276 versus \$75,804 in the corresponding three month period in 2003. Cost of goods sold in this period for each of 2004 and 2003 was \$0 which generated a gross margin of 100%. 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.

In this three month period, Novex recorded a loss from operations of \$59,863 and a net loss to common shareholders of \$101,243. For the same period in 2003, the company recorded a net profit which was attributable primarily to a one time gain on the disposition of assets of \$393,500. 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 17, 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. Upon the transfer of the property and equipment in July 2003, the related costs and accumulated depreciation were eliminated from the accounts and the gain was reflected in operations.

In the three month period, Novex incurred financing charges of \$41,380. 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 has since lowered the financing charges.

Selling, general and administrative charges in this three month period were \$115,139 versus \$62,149 in the corresponding three month period in 2003.

On August 31, 2004, Novex had \$39,012 in current assets which consisted primarily of inventory of royalty receivables of \$17,912 and cash of \$21,100. Novex also has intangible assets of \$528,555, 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.

Liquidity and Financial Resources at February 28, 2004

As of August 31, 2004 Novex had \$3,090,980 in current liabilities, which includes loans (including interest) that are now due totaling \$2,183,982 which were used to fund the Company's operations. It had accounts payable of \$445,299 and accrued taxes of \$403,677.

Of the 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 \$528,555, 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

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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.

Inflation and Changing Prices

Novex no longer manufacturers its products and is no longer subject to risks associated with inflation or substantial price increase 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 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.

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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

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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, 2004 and 2003. 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 3. Controls and Procedures

(1) 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 filings relating to the Company.

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(2) 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.

Part II Other Information

Item 1. Legal Proceedings

On June 18, 2004 the settlement agreement with Dime was released from escrow. 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.

The Company is involved in several lawsuits arising from the non-payment of recorded payables. These claims are unsecured and subordinate to a properly perfected security interest of 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.

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97-CV-126814.

Item 2. Changes in Securities. None.

Item 3. Defaults Upon Senior Securities. None.

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.

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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: November 12, 2004

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