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NOVEX SYSTEMS INTERNATIONAL, INC.

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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

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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 historical losses. Except for the current fiscal year, 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."

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.

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

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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.

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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 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 42 Forest Lane, Bronxville, New York 10708, telephone 914-441-3591.

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

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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

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

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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.

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c. Subsequent Events

Effective June 18, 2004, the settlement reached with Dime was released from escrow with the appropriate releases and warrant of satisfaction being filed and disseminated accordingly. All litigation with Dime is now final.

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

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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 42 Forest Lane, Bronxville, New York 10708.

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.

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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

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product is used primarily when old floors are 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 while water may be trickling through. The product hardens in 3-5 minutes and can be applied under water.

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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

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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 Anchoring Cement | Conspec Tamms Master Builders Quikcrete Sonneborn Sika W.R. Meadows ChemMasters Rockite UGL THORO Oldcastle |
| Super Por-Rok Exterior Anchoring Cement & Sta-Dri Anchoring Cement | (Same as above) |
| Por-Rok Aqua Plug & | (Same as above) |

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| | |
|---|--|
| Sta-Dri Waterstop | |
| 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 |

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| | |
|---|---|
| | 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 |
| 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 financial position would be materially and adversely affected.

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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.

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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 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

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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, 2004, 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, 2004, Novex did not have any backlog orders on account of

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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 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

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

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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, 2004, Novex, on a consolidated basis, employed two (2) 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. The current office is located at 42 Forest Lane, Bronxville, New York 10708, telephone number 914-441-3591. See, Subsequent Events, Legal Proceedings.

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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

On June 18, 2004 the settlement agreement with Dime was released from settlement. 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. 97-CV-126814.

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

During the fiscal year ended May 31, 2004, there were no proposals submitted to a vote of the shareholders.

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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, 2004 and May 31, 2003, 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, 2004, 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 |
|---------|------|-----|---------------------|
| ----- | ---- | --- | ----- |

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| | | | |
|---------|--------|--------|---------------------|
| 1st | \$.01 | \$.01 | August 31, 2003 |
| 2nd | \$.01 | \$.01 | November 30, 2003 |
| 3rd | \$.01 | \$.01 | February 28, 2004 |
| 4th | \$.01 | \$.01 | May 31, 2004 |
| 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 |

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 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

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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, 2004, 2003 and 2002 and balance sheet as of May 31, 2004 and 2003 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

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Analysis of Financial Condition and Results of Operations".

| | Years Ended May 31 | | |
|------------------------------------|--------------------|----------------|----------------|
| | 2002 | 2003 | 2004 |
| STATEMENT OF OPERATIONS | | | |
| DATA: | | | |
| Net Sales | \$ 1,866,914 | \$ 1,046,673 | \$ 230,275 |
| Gross Profit | 672,313 | 341,634 | \$ 230,275 |
| Net Profit/(Loss) | (1,103,360) | (1,566,685) | \$ 226,094 |
| | | | |
| Net Income/(Loss) Per Common Share | \$ (.04) | \$ (.07) | \$ (.01) |
| | | | |
| BALANCE SHEET DATA: | | | |
| Working Capital Deficit | \$ (2,954,752) | \$ (4,007,260) | \$ (2,963,356) |
| Intangibles, net | 628,784 | 591,694 | \$ 541,183 |
| Total Assets | 2,570,791 | 1,430,326 | \$ 577,776 |
| Long Term Debt | -0- | -0- | -0- |
| Stockholders' Deficiency | (1,094,569) | (2,648,267) | (2,422,171) |

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

Results of Operations

Year ended May 31, 2004 (Fiscal 2004) as compared to May 31, 2003 (Fiscal 2003)

While net sales for the year ending May 31, 2004 were \$230,275 net sales for the same period ended May 31, 2003, were \$1,046,673. 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. In the current fiscal year Novex recorded 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

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has eliminated a substantial amount of its fixed and variable expenses by terminating its manufacturing expenses.

Novex achieved a gross profit of 100% for the year ending May 31, 2004. 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 2004 with prior fiscal periods years that consisted of mostly 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, 2004, the Company generated a profit of \$226,094. Included in this profit was a one-time gain of \$393,517 for the closing of the Novex's manufacturing operation and exchange of its real property for outstanding debt. Novex also recorded non-cash expenses for depreciation and amortization of \$37,884.

On a monthly basis, Novex now incurs approximately \$20,000 in selling, general and administrative expenses expense.

As of May 31, 2004, the Company had \$36,593 in current assets, which

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consisted principally of royalty receivables of \$36,413, with the remaining balance in cash. The Company has intangibles of \$541,183, which is attributable to the two acquisitions that the Company completed in 1999 and 2000.

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

Net net sales for the year ending May 31, 2003 were \$1,046,673, while net sales for the same period ended May 31, 2002 were \$1,866,914. The decrease in sales was attributable principally to Novex converting from a manufacturing company to a licensing company that collects royalties.

Novex only achieved a gross margin of 33% for the year ending May 31, 2003. The change in gross margin during this period was immaterial over the previous year.

For the year ending May 31, 2003, the Company generated a loss from operations of \$1,566,685 versus \$65,481 in the previous fiscal year. The larger lose in 2003 related to several expenses that the company incurred to change its operation from a manufacturing operation to a licensing company.

As of May 31, 2003, the Company had \$71,334 in current assets, which consisted principally of accounts receivable of \$68,169 and cash of \$3,165. The Company's net property, plant and equipment totaled \$767,298 and goodwill of \$591,695 which is attributable to the three acquisitions that the Company completed in 1998, 1999 and 2000.

Liquidity and Financial Resources

As of May 31, 2004, the Company had \$2,999,947 in current liabilities, which includes loans (including interest) that are now due totaling \$2,123,515, which were used to fund the Company's operations. It had accounts payable of \$423,127 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.

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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.

Inflation and Changing Prices

Novex no longer manufacturers its products and is no longer subject to

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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.

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

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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, 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 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Directors
Novex Systems International, Inc.

We have audited the accompanying balance sheet of Novex Systems International, Inc. as of May 31, 2004, and the related statements of operations, changes in 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 standards of the Public Company Accounting Oversight Board (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, 2004, 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

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Company will continue as a going concern. The Company has suffered from recurring losses from operations, has a negative working capital and shareholder deficiency as of May 31, 2004. The Company 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.

/s/ Radin, Glass & Co., LLP
Certified Public Accountants

New York, New York
October 13, 2004

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

ASSETS

CURRENT ASSETS:

| | | |
|-----------------------------|----|--------|
| Cash | \$ | 180 |
| Royalty/Licensee receivable | | 36,413 |
| | | ----- |
| Total Current Assets | | 36,593 |

INTANGIBLES - net

541,183

\$ 577,776
=====

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

| | | |
|--|--|-----------|
| Current portion of long term debt | | 1,570,958 |
| Accounts payable | | 423,127 |
| Loans payable - shareholder | | 150,322 |
| Accrued expenses and other current liabilities | | 451,863 |
| Accrued payroll taxes | | 403,677 |
| | | ----- |
| Total Current Liabilities | | 2,999,947 |
| | | ----- |

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 |

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| | |
|--------------------------------|--------------|
| Accumulated deficit | (10,505,816) |
| | ----- |
| Total shareholders' deficiency | (2,422,171) |
| | ----- |
| | \$ 577,776 |
| | ===== |

See notes to financial statements.

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NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS

| | Year Ended May 31, | |
|--|--------------------|-------------|
| | 2004 | 2003 |
| | ---- | ---- |
| ROYALTY REVENUE | 230,275 | 110,558 |
| NET SALES | 0 | 936,115 |
| | ----- | ----- |
| | TOTAL SALES | |
| | 230,275 | 1,046,673 |
| COST OF GOODS SOLD | 0 | 705,034 |
| | ----- | ----- |
| GROSS PROFIT | 230,275 | 341,639 |
| SELLING, GENERAL AND ADMINISTRATIVE | 228,283 | 1,555,358 |
| | ----- | ----- |
| INCOME /(LOSS) FROM OPERATIONS | 1,992 | (1,213,719) |
| | ----- | ----- |
| OTHER INCOME(EXPENSES) : | | |
| Interest (expense) | (169,416) | (315,877) |
| Amortization or debt discount | | (37,089) |
| Gain on property conveyance | 393,517 | 0 |
| | ----- | ----- |
| OTHER INCOME (EXPENSES), net | 224,102 | (352,966) |
| | ----- | ----- |
| NET INCOME (LOSS) | 226,094 | (1,566,685) |
| Less: Preferred stock dividend | 45,214 | 164,413 |
| | ----- | ----- |
| NET INCOME (LOSS) TO COMMON SHAREHOLDERS | 180,880 | (1,731,098) |
| | ===== | ===== |
| INCOME (LOSS) PER COMMON SHARE, basic and diluted | \$ 0.01 | \$ (0.07) |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted | 25,745,187 | 26,557,687 |
| | ===== | ===== |

See notes to financial statements.

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

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital |
|--------------------------|-----------------|--------------|---------------|-----------|----------------------------------|
| | Shares | Amount | Shares | Amount | |
| BALANCE, May 31, 2002 | \$ 1,644,133 | \$ 1,644,133 | \$ 26,870,187 | \$ 26,870 | \$6,399,6 |
| Share repurchase | | | (625,000) | (625) | (8,7 |
| Warrant contribution | | | | | 22,3 |
| Preferred stock dividend | | | | | |
| Net loss | | | | | |
| BALANCE, May 31, 2003 | \$ 1,644,133 | \$ 1,644,133 | \$ 26,245,187 | \$ 26,245 | \$6,413,2 |
| Share cancellation | (1,644,133) | (1,644,133) | (1,000,000) | (1,000) | 1,645,1 |
| Net income | | | | | |
| BALANCE, May 31, 2004 | \$ -- | \$ -- | \$ 25,245,187 | \$ 25,245 | \$8,058,4 |

See notes to financial statements.

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NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

| | Year ended May | |
|---|----------------|----------------|
| | 2004 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 226,094 | \$ (1,000,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and impairment of equipment | | |
| Amortization of goodwill | 50,512 | |
| Gain on property conveyance | (393,517) | |
| Reversal of excess accruals | 66,830 | |
| Amortization of debt discount | 0 | |
| Changes in assets and liabilities, net of the effect from acquisition: | | |
| Accounts receivable | 68,169 | |
| Royalty/Licensee receivable | (36,413) | |
| Inventories | -- | |
| Prepaid and other current assets | -- | |
| Accounts payable | (129,040) | |

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| | | |
|--|-----------|-------|
| Accrued expenses and other current liabilities | 93,735 | |
| Accrued payroll taxes | 26,842 | |
| | ----- | ----- |
| NET CASH USED IN OPERATING ACTIVITIES | (26,788) | |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | 0 | |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| (Repayment of) proceeds from loans payable - shareholders | 23,803 | |
| (Repayment of) proceeds from bank line of credit | 0 | |
| Proceeds from debt financing | 0 | |
| Repurchase of common stock | 0 | |
| | ----- | ----- |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | 23,803 | |
| | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH | (2,985) | |
| CASH AT BEGINNING OF YEAR | 3,165 | |
| | ----- | ----- |
| CASH AT END OF PERIOD | \$ 180 | \$ |
| | ===== | ===== |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ 0 | \$ |
| | ===== | ===== |
| Income taxes | 0 | |
| | ===== | ===== |
| Non-cash flow and investing and financing activities: | | |
| Accrued preferred stock dividend | 0 | |
| | ===== | ===== |
| Foreclosure of property and equipment | 767,298 | |
| | ===== | ===== |
| Reversal of accrued liabilities related to foreclosure | 138,943 | |
| | ===== | ===== |
| Satisfaction of bank debt via foreclosure | 414,018 | |
| | ===== | ===== |
| Contribution of preferred and common equity | 1,645,133 | |
| | ===== | ===== |

See notes to financial statements.

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NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2004 AND 2003

1. DESCRIPTION OF BUSINESS

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

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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 financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred net income of \$226,094 for the year ended May 31, 2004 "2004" and a net loss of \$1,566,685 for the year ended May 31, 2003 "2003". Such net income for 2004 was primarily a result of the property conveyance for satisfaction of certain secured outstanding debt. Additionally, the Company had a net working capital deficiency, a shareholders' deficiency and negative cash flow from operations for the years ended May 31, 2004 and 2003. 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 accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.
- b. Property, Plant and Equipment - As of May 31, 2003, property and equipment had been recorded at cost. Depreciation was provided on the straight-line method based upon the estimated useful lives of the respective assets. Property and equipment had been depreciated over a period of five years. Maintenance, repairs and minor renewals were charged to operations as incurred, whereas the cost of significant betterments was capitalized.

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, 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. Upon the transfer of the property and equipment in July 2003, the related costs and accumulated depreciation were eliminated from the accounts and gains

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or losses were reflected in operations.

- c. 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. Any impairment losses have been recorded in the statement of operations. In 2003, the Company had 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. The equipment was transferred to Dime as part of the settlement

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agreement of January 16, 2004. (See Note 2(b) above.)

- d. 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.
- e. Revenue Recognition - Revenue is recognized when the product is shipped by the Licensee to its customer. Allowances for estimated bad debts, sales returns and allowances are provided when sales are recorded.
- f. Shipping and Handling Fees - Prior to the commencement of the license agreement in January 2003, the Company recorded 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, 2004 and 2003, the Company recorded shipping and handling fees of \$0 and \$135,587, respectively.
- g. 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, 2004 and 2003 amounted to approximately \$11,769 and \$10,225, respectively.
- h. Income (loss) Per Share - Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. For the year ended May 31, 2004 and 2003, diluted income (loss) per share is the same as basic income (loss) per share since the inclusion of stock options and warrants would be antidilutive.
- i. 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 grant. Statement of Financial Accounting Standards No. 123 (SFAS 123) Accounting for Stock-

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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 options or warrants have been granted to employees, officers and directors during fiscal years ended 2004 and 2003.

- j. 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

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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.

- k. 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.
- l. 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.
- m. 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.

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

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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.

3. CONCENTRATION OF CREDIT RISK

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

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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 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. PROPERTY, PLANT AND EQUIPMENT

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. The Company recorded a net gain of \$393,517 as a direct result of the property conveyance.

6. ACCRUED EXPENSES AND OTHER LIABILITIES

As of May 31, 2004, accrued expenses and other liabilities consist of the following:

| | |
|--------------------------|------------|
| Accrued interest payable | \$ 412,235 |
| Other accrued | 39,628 |
| | ----- |
| | \$ 451,863 |
| | ===== |

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7. 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

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indication that the carrying amounts may not be recovered.

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, 2004, the Company has available unused net operating loss carryforward ("NOL") of approximately \$10,500,000 that may be applied against future 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.

| | 2004 |
|---------------------------------|--------------|
| Deferred tax asset: | |
| Net operating loss carryforward | \$ 3,570,000 |
| Valuation allowance | (3,570,000) |
| | ----- |
| Net deferred tax asset | \$ -- |
| | ----- |

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

| | 2004 | 2003 |
|--|-----------|-------------|
| Income tax (benefit) at statutory rate | \$ 61,500 | \$(510,000) |
| NOL (utilized) not utilized | (61,500) | 510,000 |
| | ----- | ----- |
| 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.

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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. The line provided working capital and was secured by accounts receivable and inventory. Advances under the line were based on 80% of eligible accounts receivables and 50% of eligible inventory. Interest was computed on the average monthly balance under the line based on 4% above the prime rate at May 31, 2003, the prime rate was 4.25%.

As of May 31, 2003, the Company was not in compliance with several of the

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financial covenants. The Company satisfied its debt to Dime through the conveyance of its collateral to Dime in July 2003 as confirmed by a settlement agreement dated January 16, 2004.

11. LONG TERM DEBT

At May 31, 2004, long-term debt consists of:

| | |
|---------------------------------|-----------------|
| Notes payable (a) | \$1,120,958 |
| Debenture payable (b) | 125,000 |
| Dime note payable (c) | 0 |
| Notes payable (d) | 325,000 |
| | ----- |
| | 1,570,958 |
| Less: Unamortized debt discount | 0 |
| | ----- |
| | 1,570,958 |
| Less: Current portion | 1,570,958 |
| | ----- |
| | \$ -- |
| | ===== |

- 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.

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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.

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- c) The Company had been 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 a put warrant. Amortization of discount charged to operations for fiscal year 2003 was \$37,089. The loan provided for monthly interest payments based on the prime rate plus four percent. Installments due under the loan began on March 13, 2000 in the amount of \$7,722 per month. The loan matured 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 had 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 was collateralized by all of Novex's property, plant and equipment at the Clifton facility. As of 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 was classified in the balance sheet as current liabilities.

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, 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.

- d) In May and June 2002, the Company raised \$325,000 from outside investors. The note payable bears interest at 10% per annum and the principal plus accrued interest was due on July 23, 2002, by which time the parties had expected to close a sale-leaseback of Novex's property. In connection with this loan 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 investors aborted the transaction immediately prior to closing. In April 2004 the investors commenced litigation against Novex and its president for repayment of the loans.

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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 had a liquidation preference of \$1.00 per share plus declared and unpaid dividends. The series A preferred stock could have been redeemed at the option of the issuer at any time and any number of shares including unpaid dividends until August 7, 2002. Furthermore, the Company had 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. Additionally, the Company could not declare and pay any cash or stock dividends to any other class

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of equity securities until the series A preferred stock had been redeemed or converted to common stock.

The series A preferred stock accrued dividends at a rate of 10% per year and on each anniversary date of the issuance of these shares the Company was to have issued one additional share of series A preferred stock for each one-dollar amount of unpaid dividends payable.

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.

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.

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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.

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 ownng 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.

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

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shareholders that it alleges have received securities without paying fair consideration to the Company.

- b. Equity transactions during fiscal year 2003 were as follows:
- o The Company reacquired 625,000 shares of common stock as 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.
- c. Equity transactions during fiscal year 2004 were as follows:
- o The Sherwin Williams Company 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 paid with preferred stock.
 - o The Company terminated all of its preferred stock having had a liquidation preference of \$1.00 per share on 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, resulting in a contribution to capital in the amount of \$1 million. The recorded values of the preferred shares and common shares have been recorded as contributed capital

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13. STOCK OPTIONS

The following table summarizes the activity with regard to options and warrants for the years ended May 31, 2003 and 2004. No options or warrants were granted, cancelled or exercised in fiscal 2004.

| Stock Options | | | Warrants | | |
|---------------|----------------|-------------|----------|----------------|-------------|
| Shares | Exercise Price | Exercisable | Shares | Exercise Price | Exercisable |
| 1,773,424 | 0.07 - 0.50 | 1,773,424 | 810,365 | 0.20 - 20.00 | 810,365 |

14. COMMITMENTS AND CONTINGENCY

- a. The Company leased 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. All leases expired, without renewal, and no further commitments exist.

Total rental expenses for the years ended May 31, 2004 and 2003 was approximately \$883 and \$1,000, respectively. The Company currently operates within the home of the CFO/CEO and no rent is accrued or paid for such use.

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- 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

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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.

- e. The Company is involved in several lawsuits arising from the non-payment of recorded payables.

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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, 2004 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, 2004.

| Name | Age | Position |
|------|-----|----------|
| ---- | --- | ----- |

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| | | |
|------------------|----|--|
| William K. Lavin | 60 | Chairman, Secretary |
| Daniel W. Dowe | 42 | Director, President and Chief Executive Officer |
| Edward J. Malloy | 68 | Director |
| Kevin DeMatteis | 40 | 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 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.

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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

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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, 2004, to all directors and officers:

Table 1
Summary Compensation Table

| Name and Principal Position | Year | Annual compensation | | Other Annual Compensation (\$) | Restricted Stock Awards (#) | Securities Underlying Options SARs (#) | Long-Term Com | LTIP (\$) |
|--------------------------------------|------|---------------------|---------------|---|--------------------------------------|--|---------------|--------------|
| | | Salary (\$) | Bonus (\$) | | | | Awards | |
| Daniel Dowe President | 2004 | \$180,000 | | | | | | |
| (1) (2) | 2003 | \$180,000 | | | | | | |
| | 2002 | \$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 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;

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- (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.

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, 2004 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:

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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 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, 2004 there were 25,245,187 shares issued and outstanding and 25,795,187 on a fully diluted basis. Percentages are stated on a fully diluted basis.

Director Compensation

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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.

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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 and administrative 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.

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Item 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed and unbilled for the fiscal year ended May 31, 2004, and 2003 for professional services rendered by our principal accountants for the audits of our annual financial statements, and the review of our financial statements included in our quarterly reports on Form 10-QSB were

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approximately \$15,000 and \$27,500, respectively.

Tax and Other Fees

There aggregate fees billed for the fiscal years ended May 31, 2004 and 2003 for tax related or other services rendered by our principal accountants in connection with the preparation of our federal and state tax returns was \$-0-.

Approval of Non-Audit Services and Fees

We did not have independent directors or an audit committee during fiscal 2004 or 2003. We plan to form an Audit Committee consisting solely of independent directors and, consistent with SEC policies and guidelines regarding audit independence, the audit Committee will be responsible for the pre-approval of all audit and permissible non-audit services provided by our principal accountants on a case-by-case basis.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (A) The financial statements and supplementary data are included in Part II Item 8

None.

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- (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 |

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- 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
 - 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 Subsidiaries of Novex
 - 31 Certification of Principle Executive and Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 32 Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

NOVEX SYSTEMS INTERNATIONAL , INC.

By: /ss/ Daniel W. Dowe

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

Dated: October 14, 2004

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:

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Dated

/ss/ Daniel W. Dowe Director October 14, 2004

Daniel W. Dowe

/ss/ William K. Lavin Director October 14, 2004

William K. Lavin

/ss/ Edward J. Malloy Director October 14, 2004

Edward J. Malloy

/ss/ Kevin DeMatteis Director October 14, 2004

Kevin DeMatteis