NOVEX SYSTEMS INTERNATIONAL INC
Form 10KSB
August 31, 2001

FORM 10-KSB

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

(x) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED May 31, 2001.

OR

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes X No

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

Based on the closing sale price of $.15 on May 31, 2001, the aggregate market value of the voting stock held by nonaffiliates of the registrant was approximately $2,100,000. The company had 24,648,988 shares of its $.001 par value common stock and 1,390,388 shares of its $.001 par value preferred stock issued and outstanding on May 31, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-K	Incorporated Document
None	

NOVEX SYSTEMS INTERNATIONAL, INC.

Table of Contents

PART I

Item 1. Business and Risk Factors

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 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.

Our limited operating history makes it difficult for investors to evaluate our business based on past performance - Novex has only had manufacturing operations and related revenues since April 1998 and we have only owned the Por-Rok business since August, 1999. As a result, it may be difficult for investors to evaluate our business and its prospects based on prior performance.

Novex has had losses and may not be able to achieve profitability. Novex has recorded net losses for each year of operation (1994-2001). In addition, a significant portion of our assets are attributable to goodwill. In August, 2000, Novex purchased all the assets of The Sta-Dri Company, which resulted in goodwill of $185,587 and is being amortized on a straight-line method over 15 years. As of May 31, 2001, goodwill net of accumulated amortization amounted to $678,236. Amortization expense charged to operations for the fiscal year 2001 was approximately $48,000. 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 with regard to the 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 this would hurt our results of operations and make it even more difficult to achieve profitability in the future. Going forward, Novex anticipates incurring significant expenses, including product and service development expenses, sales and marketing costs and administrative expenses, as well as other problems, expenses, delays and other uncertainties inherent in a business with a relatively short history of operations which is seeking to expand its operations. Accordingly, these factors will also make it more difficult to achieve profitability in the near future. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and "Financial Statements and Notes."

If Novex cannot expand its limited product line, its ability to increase revenues and become profitable will be hampered. In the construction products industry, end-users would prefer to use one manufacturer's products in any given construction project and distributors generally prefer to stock an expanded rather than a limited product line. We currently market only a limited number of products and need to acquire companies with complementary products, or we need to have other companies private label products using our brand names and their own formulations and/or develop new products. Because of the uncertainties associated with obtaining acquisition financing and with closing these transactions, we may not achieve our objective to expand our product line this year. Furthermore, we do not currently know when new products under development will be ready for manufacturing, generate revenues, or whether they can be successfully marketed. If we are unable to acquire new products or develop new

products, our ability to achieve profitability through increased sales from an expanded product line would be delayed. See "Business-Novex's Future Operations" and"-Description of Novex's Products."

If Novex cannot obtain additional financing, it could default on its debt obligations, lose the Por-Rok facility and suffer a decrease in revenues. Novex is required to make monthly payments on the $774,167 Secured Term Loan

Promissory Note in favor of Dime Commercial Corp. In addition, we have bridge loans outstanding in the amount of $886,000 that mature on September 15, 2001, which notes are secured by our assets, but subordinated to the loans owed to Dime Commercial Corp. Our ability to pay off the debt owed to Dime Commercial Corp. and the bridge loan holders will be dependent to a large extent upon the success of our new marketing strategy, our acquisition of additional brand products, the successful implementation of our distribution strategy and our marketing and sales efforts. If the revenues generated by our sales and marketing efforts are not sufficient to pay off the debt owed to Dime Commercial Corp. and the bridge loan holders, we will need to obtain financing from an outside source. If Novex shall need additional financing for working capital it does not have any assets to pledge, therefore any future financing would have to be in the form of unsecured debt financing that would be subordinated to current secured loans, or equity financing such as the sale of preferred or common stock. If Novex had to raise capital through unsecured debt the interest rate would be much higher than secured financing and could be as high as 15%-20%. It may also require the issuance of common stock or a warrant to purchase common stock at favorable prices. On the other hand, if Novex had to raise financing through the sale of preferred stock the dividend rate on the stock would likely be in the 10%- 15% range. A potential investor could also require that the preferred stock be convertible into common stock at a future date on terms that are not favorable to current common shareholders. Lastly, Novex could offer to sell common stock to a prospective investor, however since the company has yet to become profitable it is likely that this form of financing would be very dilutive to current shareholders. If Novex is unable to obtain additional financing, it could default on the loans made by Dime Commercial Corp. and the bridge loan holders. Failure to make any of the payments to Dime Commercial Corp. could result in a re-transfer of the Por-Rok facility to Dime Commercial Corp. Any such re-transfer would reduce Novex's operations substantially, adversely effect its financial condition and results of operation and make it even more difficult to achieve profitability in the future. See "Business", "Management's Discussion and Analysis of Condition and Results of Operations" and "Financial Statements and Notes."

Because Novex has no patent protection for its product formulae, its competitors could copy its products and market them under another name which could decrease Novex's revenues and hamper its ability to achieve profitability. Since the formulae would become public knowledge if Novex were to obtain patent protection, Novex has chosen not to obtain patents on any of its proprietary technology. Therefore, the absence of patent protection represents a risk in that Novex will not be able to prevent other persons from developing competitive products. If Novex's competitors were to learn of the secret formulae for making its products, they could easily duplicate the products and offer them to Novex's customers without any suggestion of patent infringement. As a result, Novex's revenues would decline and its ability to achieve profitability would be hampered.

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 Mr. Daniel W. Dowe, its President and Chief Executive Officer. At present, Mr. Dowe is the company's only executive officer, in that the company's chief financial officer recently left the company. Mr. Dowe is now directly handling all sales and marketing function and oversees financial and legal responsibilities.

2

To the extent that the services of Mr. Dowe become unavailable,it would be very difficult to attract or retain personnel who would be able to adequately perform the functions previously performed by Mr. Dowe and the company's ability to continue its operations until a replacement is hired would be substantially hampered. See "Management".

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

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

Certain information included in this Form 10-KSB contain statements that are forward-looking, such as statements relating to future anticipated direction of Novex, plans for expansion, corporate acquisitions, anticipated sales growth and 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 Systems International, Inc. ("Novex") is a corporation formed under the laws of New York and has its principal place of business and executive offices located at 16 Cherry Street, Clifton, New Jersey 07014, telephone 973-777-2307. 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. Furthermore, it was management's belief that New York has a more developed body of laws governing public companies than does Minnesota. For this reason, the new entity, Novex, was incorporated in the State of New York, and the Minnesota company, Stratford, was merged into Novex. As a result, the Minnesota company essentially dissolved into and became a part of the surviving entity, Novex.

Novex also has a wholly-owned 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 was 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.

Before August 15, 1995, Stratford was a dormant corporation. On August 15, 1995, it acquired from the inventor, the exclusive right to manufacture and market a proprietary admixture for the enhancement of cementitious products now known as "Adment". Novex granted the inventor 500,000 shares of common stock and a royalty of 2% of the gross sales of Adment up to a maximum royalty amount of $500,000. The inventor is deceased and is now represented by his wife and daughter who are not affiliated with Novex, other than through the royalty agreement.

Adment is a blend of various materials which when mixed with portland cement and water causes a chemical reaction that creates a calcium silicate hydrate (CSH) paste binder that has a very dense microscopic pore structure. This change in the molecular matrix of the cementitious product increases the bonding between the CSH paste and the aggregates that are mixed into the formula to create a mortar or concrete product. By having a denser pore structure, the end product becomes more durable and resistant to chemicals and water penetration.

Upon acquiring the technology in 1995, Novex's initial plan was to conduct further research and development of Adment with the intention of marketing Adment and a line of pre-packaged concrete repair products using Adment. In the two and one-half year period from August 15, 1995 through

November, 1997 Novex underwent a series of management changes, generated no revenues, incurred an accumulated deficit of approximately $3,000,000 and was still in the early development stage.

On November 17, 1997, Novex made a major change in its business plan. In 1998, the Novex Canada facility was opened and the company began to manufacture a line of concrete repair products under the Novacrete brand name. Novex's also increased the number and caliber of its board of directors and senior management by appointing as chairman of the board Mr. William K. Lavin who has substantial senior level management experience with the Woolworth Corporation and Mr. Edward J. Malloy who, as President of Building and Construction Labor Union in the

Greater New York area brings substantial experience in construction practices and contacts to Novex.

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's overall plan was to consolidate the operations of the acquired company with its existing operations, to realize greater operating efficiencies, and to achieve its targeted gross margin of 50% of net sales. Accordingly, in December 1998 Novex closed ARM PRO's Teeswater, Ontario plant and merged the ARM PRO operations into Novex Canada's Mississauga, Ontario operating facility. In October, 2001, the manufacturing operations of Novex Canada was discontinued after it had sold its fiber manufacturing business to Interstar Admixture Co. and its cement product operation to QEP/Roberts, Ltd. Novex retained the exclusive right to the Fiberforce brand name which it now sells to The Home Depot and other retailers.

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. The warrants have an exercise price of $.25 per share and an exercise period commencing upon issuance and terminating on August 13, 2002. The balance of the purchase price was provided by The Sherwin-Williams Company in exchange for which Novex issued a 10% secured promissory note in the amount of $1.3 million and 1 million shares of Novex's common stock.

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

5

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 adminitration 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. In addition Novex' President issued a check in the amount of $72,000 to the Sta-Dri shareholders that is collateralized by 350,000 shares of common stock owned by the President that is to be payable in October. The company's president and the company have entered into a agreement whereby the company will pay the president the full amount of the $72,000 paid to the Sta-Dri shareholders on behalf of the company. As part of the terms to the acquisition, the Company has provided the Selling Shareholders with certain piggyback registration rights. Therefore, in the event that the Company shall register any shares of its common stock with one year from August 1, 2000, the Company will register any of the unregistered and non-freely tradeable shares of common sock issued to the Sta-Dri shareholders. Additionally, the company has provided the Sta-Dri shareholders with the right to purchase any shares of the Novex common stock offered for sale or securities convertible into its common stock from August 1, 2000 until August 12, 2002. As of August 1, 2001 and until August 1, 2002, Novex will have 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. Regardless of the stock price, Novex's obligation to pay $6,000 to the Sta-Dri shareholders shall cease on August 1, 2002.

Novex believes that distributors would rather stock one manufacturer's product line to reduce the number of vendors with which they have to do business, meaning less shipments to their warehouses and less accounting for only a few large vendors versus multiple smaller ones. Furthermore, with larger orders, distributors are able to demand better pricing on all products. Accordingly, Novex believes that by diversifying the array of products that Novex can offer to distributors of building materials, it will become more favorable to distributors as well.

While having a smaller product line does not mean that Novex would be unable to market its products, the company believes that as its product line grows, it will become more favorable to end-users and distributor, resulting in increased sales to both of these types of customers. For this reason, Novex is proactively pursuing opportunities to acquire entire companies or selected product lines from companies to further expand its line of speciality building materials. Although there are no agreements or letters of intent to acquire any companies as of May 31, 2001, Novex has engaged in discussions with several targets with the goal of closing at least one more transaction in the next twelve months to expand the array of products that Novex offers and to increase its market share in the United States and in Canada. To date, there have been no discussions on price. In fact, the decision as to which companies would be suitable acquisition candidates does not rest solely on price but also upon other factors such as the breadth of its product line, its management, its distribution channels and how easily its operations could be integrated with Novex's existing facilities in Clifton, New Jersey. Although we have identified acquisition targets, there can be no assurances that Novex will be able to reach agreements with any of the targets or that it can close these transactions. Management anticipates that it will finance future acquisitions in part with debt and equity. All assets acquired in an acquisition will be used to raise secured debt financing which will be paid to the selling entity. Management anticipates that it will

continue to increase its debt financing through Dime Commercial Corp. Therefore, any loans currently outstanding with Dime should not be an impediment to future financings. If additional financing is required to purchase a business this financing will need to be in the form of unsecured loans or equity. Assuming this type of financing arrangement could be achieved, Novex would not be hindered from financing future acquisitions on account of its current financial obligations.

Increasing Novex's product line and hiring additional staff to help management the business will be very challenging, but not impossible. To expand the product line apart from acquisitions, Novex would be required to undertake internal research and development. The cost to develop new products is minimal given the cost of the materials required for the desired products. Although Novex currently has the financial capability to develop these new products, the real "cost" in developing these products is the time needed to ensure that a new product will perform satisfactorily under field conditions and whether the product will gain market acceptance once it is completed. One advantage Novex has is that the brand name "Por-Rok" is well known and any new products that are marketed under the brand name Por-Rok should be easier to market than a "no-name" product. Nevertheless, until the new product is offered for sale, no one can actually gauge how successfully the product will sell. For this reason, management prefers to purchase products that are already accepted and have a loyal customer base rather than rely upon the development of new products. If Novex acquires a company having just a few products, it can then offer its own Por-Rok products to customers that purchase products offered by the newly acquired company. This is called "cross-marketing" which management believes is the most suitable approach to growing its product line.

At present, the company has sufficient cash flow to hire one to two additional plant workers (although there is no present need to do so) and one senior level salesman that will begin working with the company in September 2001. Even if we were to acquire additional products, whether through acquisition or internal development, our existing manufacturing staff plus one or two more plant workers would be capable of manufacturing the new products until additional shifts were needed to meet increased demand. Furthermore, since the new products would be sold primarily to our existing customers, we would continue to use the manufacturers' representatives who presently market our products.

A benefit of making acquisitions is that quality personnel that have considerable experience often can be attracted to stay with the acquiring company. For example, when Novex acquired ARM PRO and Por-Rok it retained all the key employees that now contribute greatly to Novex's daily operations. However, if Novex does not make any acquisitions this year, which is possible, it will have to compete with other companies for talented management personnel. When this happens, especially in a "tight" job market which we are currently experiencing, key personnel can be very costly to attract and Novex may not have the resources to compete with large companies that can offer more attractive compensation packages. On the other hand, one benefit we can offer individuals with an entrepreneurial bent is the opportunity to become key personnel and part of senior-level management group which is building a company. Nonetheless, finding high-quality people that can get the job done and help grow a small company like ours is always difficult. Since the future success of Novex will be dependent, in part, upon its ability to attract and retain qualified personnel, our inability to do so could have a material adverse effect upon our business.

In addition, Novex's success depends, to a large extent, on certain economic factors that are beyond its control. Unfavorable changes in factors such as general economic conditions, levels of unemployment, interest rates, tax rates at all levels of government, competition and other factors beyond

Novex's control may have an adverse effect on its ability to sell its products and to collect its receivables.

b. Financial Information About Industry Segments

All assets, revenues and operating expenses are dedicated to one business segment -- the manufacturing and marketing of construction products. 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 balance sheet and statement of operations appearing on pages F-3 and F-4, respectively.

c. Subsequent Events

In late May through August 2001 the company began to offer for sale restricted shares of its common stock at $.15 per share and a warrant to purchase one (1) share of common stock for every three shares of common stock purchased in the offering. The warrants have an exercise price of $.20 per share and a three year expiration period. As of the filing of this Form 10-KSB the company raised $153,000. In addition, Novex's CEO and President, Daniel W. Dowe, entered into an agreement with the company to convert all loans he made to the company into equity under the same terms and conditions offered to investors in the aforementioned private offering. The total amount converted was $42,686.

In July, 2001, Novex shipped six of its Sta-Dri Masonry Waterproofing products to 12 Home Depot stores located in the Baltimore region. Of the 12 stores six have reordered additional merchandise. During the third week of August, Novex also shipped two of its Dash Patch floor repair products to five Home Depot stores in the New York City market.

In July, 2001, Novex paid down its overadvance balance on its line of credit with Dime Commercial Corp. and is now within the borrowing limitations authorized under its loan agreement. The elimination of the overadvance has enabled Novex to now be charged the standard interest rate set forth in its loan agreement, versus the much higher default interest rate.

d. Novex's Current Business Operation

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

Novex currently has its executive offices at 16 Cherry Street, Clifton, New Jersey 07014. Novex's manufacturing operations are conducted at its 25,000 square foot facility and two 10,000 square foot warehouses located in Clifton, New Jersey. The overall facility consists of three buildings located on a 1.6 acre tract of commercially-zoned land.

The Clifton operating facility is a fully-integrated manufacturing plant with the capacity to manufacture approximately 30 million lbs. of product per annum which translates into roughly $10-12 million per annum in sales on a single shift basis. Novex has the capability of running at least two shifts and possibly a full third shift. Although Novex has the capacity to produce this quantity of product, it does not currently sell all that the company can produce. This operating plant currently runs at approximately 20% of its capacity on a single shift level. At present, the Clifton facility manufacturers 7.5 million lbs. of product or approximately $2.5 million in revenues per annum.

Novex plans to expand its product line over the next five years by acquiring companies that manufacture and market compatible premium building material products that have already gained an acceptable level of market penetration. The building material industry is large and encompasses a wide variety of products, services and equipment. In particular, it is interested in acquiring manufacturers of premium flooring and concrete repair products and related accessory products as well as cement enhancing admixtures for concrete. These types of products usually achieve higher margins since they are not commodity products and are principally sold based on the product's added value. Because these products are usually made and packaged in either a fully-integrated or, in some instances, a semi- integrated manufacturing facility, large volumes of product can be produced in short time periods with minimal labor.

Novex's consolidation strategy is aimed at reaping the cost reductions afforded by eliminating excess facilities and overhead while building a full service specialty product line thereby offering one- stop shopping to professional contractors who prefer to choose from one line of products for convenience, product compatibility and warranty and liability reasons.

e. How Novex Manufactures and Distributes Its Products

Novex manufactures all of its products from its Clifton, New Jersey facility. Novex' products are distributed from this facility as well as through two warehouses located in Dallas and Houston, Texas that are managed by its manufacturers representatives that are headquartered in Houston. The Clifton facility is a fully-integrated blending and packaging facility having the capacity to produce and package both powder and liquid products. The majority of raw materials used at this facility are stored in silos affixed to the roof of one of the buildings. Through an automated raw material batching system that is controlled by a plant supervisor, the raw materials are fed through the silo system and into mixing blenders. When the raw materials have been blended into a finished product, the finished batch is forced from the blender by compressed air into an automated packaging system that packages the products into 50lb. bags. The bags are then manually stacked onto wood pallets and are prepared for shipping. In addition, certain quantities of the blended finished product are transported within the factory to other packaging systems that package blended products into 1lb., 5lb., 7lb. and 50lb. pails and 1 and 5 gallon puckets. Most of the smaller quantity pails are then repacked into cardboard boxes in quantities of 4-8 pails per carton for distribution to hardware and retail outlets.

f. How Novex Markets Its Products

Novex currently has one full-time sale person and has nine manufacturers' representatives, giving Novex coverage in most eastern states and in certain other areas of Canada and the United States. On September 4, 2001, a new senior vice president of sales will join the company.

g. How Novex's Products Are Graded By Industry Standards

Building material products are classified in accordance with standardized performance criteria established by the American Society of Testing Materials (ASTM). The basic performance characteristics that are considered when classifying the types of building products that Novex sells are:

(1) Compressive strength
(2) Flexural strength (flexibility)
(3) Tensile strength (splitting)
(4) Bonding strength (adherence)
(5) Shrinkage
(6) Resistance to water penetration
(7) Durability in freeze/thaw cycles

j. A Description of Novex's Products

As of the filing of this Form 10-KSB, the following is a list of the Por-Rok and Fiberforce products marketed by Novex:

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

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

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

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

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

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

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

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

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

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

STA-DRI PRODUCTS

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

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

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

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

LINK Superbonding Agrent - 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, al it would for most paints and coatings.

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

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

STA-DRI Anchoring Cement - fast-setting expanding cement that is mixed with water and used to anchor posts, railings, mailboxes, bolts, hooks and other devises 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.

11

k. Novex's Competitors

The principal methods of competition in our industry are price, service and the reliability of the product as demonstrated by performance. Each product offered by Novex currently has been on the market for at least 10 years and in some cases over 50 years. Because the products have been used for so long, they have achieved a level of market acceptance. It is very unlikely that someone would claim that our Por-Rok, Sta-Dri or Fiberforce products don't work inasmuch as customers have been using them for years. Our prices are competitive with other like products. We do 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, we cannot offer the full range of products that they can. Consequently we cannot offer volume price discounts to the extent our larger competitors can. Until we expand our product line, we cannot offer the complete repair kits which some of our larger competitors can. To remain competitive in the interim, we aim to provide customers with exceptional service and very favorable pricing and payment terms with respect to the product currently in our line.

The industry for building material products is highly fragmented and has various classes of competitors. Competition ranges from large multi-national companies to local manufacturers. Because the transportation of heavy products like building materials involves sizeable shipping costs, hundreds of manufacturers of building products have been able to sustain market share in local markets, thus resulting in a fragmented industry. Novex would like to capitalize on this situation by acquiring selected companies in various regions of North America for the purpose of:

- acquiring additional premium building products,
- increasing market share, and
- improving operating margins by consolidating operating facilities to eliminate excess overhead which is prevalent in the industry.

As of the filing of this Form 10-KSB, 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

Brand	Major Competitors
Super Por-Rok Exterior Anchoring	(Same as above)

Cement & Sta-Dri Anchoring Cement	
Por-Rok Aqua Plug & Sta-Dri Waterstop	(Same as above)
Por-Rok Concrete Patch & Sta-Dri Concrete Patch	(Same as above)
Por-Rok Halco Grout	Mapei Tamms
Por-Rok Lev-L-Astic	Mascrete Tamms Dependable Mapei Dap
Por-Rok Dash Patch & Super Dash Patch	Dependable Mascrete Tamms CGM Underlayment Taylor Vitrex 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 concessions than Novex. Should Novex be unable to compete effectively, Novex's results of operations and financial position would be materially and adversely affected.

l. 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 larges sales in the winter months.

m. 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.

n. Raw Materials

An important aspect of Novex's business is having an adequate supply of raw materials. The raw materials used in manufacturing the Por-Rok products are readily available in the United States and Canada. Novex currently purchases most of its raw materials from approximately twelve principal suppliers located in Canada and the United States and has access to numerous suppliers in the United States. 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. Nor does Novex anticipate difficulty in obtaining these products if its relationship with one or more of its suppliers were to end. Novex further believes that the loss of any one supplier will not adversely affect Novex's business.

o. 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 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.

On an internal basis, any proprietary technology is maintained by the manager of research and development and Novex's senior management on a "need-to-know" basis in order to perform their jobs. By keeping all laboratory developments in close confidence Novex seeks to limit misappropriation of company secrets by employees or third parties. Although Novex had initially thought to require its Por- Rok employees to sign confidentiality agreements relating to the Por-Rok products, upon reconsideration, the company has determined it will not require them to sign confidentiality agreements since these products have been manufactured for up to 40 years under previous management without confidentiality agreements in place.

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 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.

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

Because of its early stage of development and that Novex was undercapitalized from its inception its working capital was derived from a number of sources. For the fiscal year ended May 31, 2000, Novex experienced less fluctuations in its working capital requirements to finance its operations due to the less seasonal nature of the Por-Rok products as well as the $750,000 revolving line of credit that Novex now has with Dime Commercial Corp.

To cover its working capital requirements in 1999, Novex sold a 10% Debenture in February 1998 of $550,000. Had Novex been unable to sell the debenture and notes to generate working capital, it would have had a substantial negative cash flow and would likely have had to formally reorganize or cease its operations. In the fiscal year 1999 the net cash used in Novex's operations including investing activities was approximately $1.4 million. This amount was needed to fund Novex's expansion of its operating facility and for operating expenses for such as rent, payroll, new operating equipment, raw materials, research and development, professional fees and trade debts.

On September 4, 1998 Novex sold a 9% $800,000 Debenture that matures on September 4, 2000 and a warrant to purchase 1,500,000 shares of common stock at $.45 per share for a period expiring on September 4, 2000. From these proceeds Novex used $610,000 to purchase ARM PRO and reserved the remaining $190,000 for working capital and transaction expenses. Upon closing the ARM PRO transaction, pursuant to the definitive purchase agreement, ARM PRO was required to have

approximately $175,000 of cash, $100,000 in account receivable, $100,000 in inventory and total liabilities not to exceed $50,000.

To further offset its working capital demands in 1999, Novex also secured a $250,000 bridge loan from a shareholder to cover the cash shortfall and entered into a factoring agreement with Montcap Financial Corporation which also provided Novex with $70,000 note that is secured by equipment located at its

Mississauga facility.

Although Novex's general credit policy is to invoice customers on a thirty day payment basis, to encourage customers to take larger volume orders Novex may, in limited circumstances, allow for payment of an invoice in sixty days. In addition, although invoices are stated as being due in thirty days, it is fairly common practice in the construction products industry for contractor customers to pay over a 45-day period. This delay results from the contractor having to submit invoices for work completed which includes the cost of materials used on the project. Although Novex will be very aggressive in allowing extending payment terms to customers where it will result in additional sales of Novex's products, extended payment terms will generally be discouraged.

q. No Backlog Orders

As of May 31, 2001, the company had approximately $50,000 in backlog orders.

r. 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.

s. 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.

t. Novex's Research and Development Activities

With the discontinuation of the Adment product and the development of a new product line under the Novacrete brand name, Novex's expenditures for research and development were substantially curtailed in the fiscal year ending May 31, 2001 to nominal levels. In fiscal year 2000, Novex spent aproximately $15,000 on fees payable to outside testing laboratories. In fiscal year 1999, Novex spent approximately $30,000 on fees payable to outside independent testing laboratories that were engaged to conduct various testing procedures to improve the Novacrete products. Novex further incurred approximately $60,000 in expenses for personnel and laboratory equipment. In fiscal year 1998 Novex spent approximately $40,000 on fees payable to outside testing laboratories to advance testing of its Novacrete products. Other than for a brief period in 1997 in which Novex employed the services of a cement technology consultant for approximately three months, Novex did not have any technical personnel on staff from January, 1997 through February, 1998 to conduct research and development on new products. In 1996, Novex spent less than $20,000 on fees payable to outside testing laboratories to

advance testing of its Novacrete products and an old formulation for a Novacrete Fast-Set product that Novex has since abandoned.

u. Environmental Compliance

Novex does not manufacture products or 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. Although Novex has installed a compressed-air dust control system in its facilities to maintain a higher quality of air in its operating plant this system is not mandatory. The system installed in Novex Canada cost Novex approximately $20,000 and operates during the processing of certain products that contain raw materials having a very low density and have the physical characteristics of dust-like particles.

As part of the Por-Rok acquisition, a Phase I Environmental Compliance Review was conducted at the Clifton, New Jersey plant. No material findings were reported. During June an unexpected vist was made by a representative of OSHA which resulted in fines of approximately $3,500 to address some violations of health and safety regulations. None of the violations were deemed by management to be material and some corrective measures were already being planned prior to the inspection by OSHA.

With each shipment of product, Novex issues a material safety and data sheet (MSDS) which describes the product and its components and precautionary measures when using the product. Since Novex's products are environmentally safe, unless new regulations are adopted by the governments of Canada or the United States, we expect to expend a nominal percentage of its operating budget on environmental compliance for the next fiscal year and for the foreseeable future.

v. Novex's Future Operations

Although an integral component of Novex's business plan and future growth will be the acquisition of targeted companies and product lines in the building materials industry, Novex's operating strategy will also include the following initiatives:

Systems Approach to Selling Building Materials

In 1998, Novex conducted extensive "hands-on" market research which has become the underlying basis for Novex's "systems approach" to marketing building materials. This research revealed that the usual concrete repair project, such as the repair of a worn floor of a large industrial plant, could require the use of several products including a surface bonding agent, a durable concrete repair product, a floor hardener or smoother topping product, and possibly a cure or sealing product to further protect the installation from damage from water and chemicals. Through its research, Novex learned that end-users prefer to use products that are compatible with one another and that are backed by the warranty of one manufacturer. As a result, they look to purchase complete repair "kits" from one manufacturer rather than to purchase isolated products from various manufacturers. To accommodate end-users who desire to purchase products in this manner, distributors of building materials prefer to stock the products of manufacturers that produce a full line of products that can be used together.

Several of our competitors already offer complete "kits" to repair damaged concrete, a floor or a wall. Therefore, responding to market preferences and competitive forces, Novex's foremost goal this year will be to grow and diversify its product line. By offering all the products as a complete repair system under one warranty, Novex believes it will increase sales to end-users of all products as well as attract stocking distributors that prefer to handle complete product lines. Growing through acquisitions (versus solely by research and development) will shorten the time period needed to achieve this goal, and will provide Novex with the advantage of marketing compatible products together with those that have already gained commercial acceptance.

One Label, One Store

"One Label, One Store" essentially means that Novex will be offering a diversified line of products that can be used together under one warranty and all of Novex's products will be available in most locations. The program will be offered to the 300+ outlets that currently distribute Por-Rok products and to new distributors and retail outlets that Novex will be pursuing. One stop shopping will benefit the customer and the distributor alike by eliminating the customer's need to source products at various locations. By purchasing a wider array of products from one manufacturer, distributors will satisfy their customers' demands, eliminate the logistics of stocking multiple vendors and obtain volume discounts.

Novex first introduced the One Label, One Store program to The Home Depot and has received approval to begin marketing its Fiberforce line of products in five Home Depot stores in Ontario, Canada as soon as Novex can complete a packaging design for retail distribution. Novex currently packages its Fiberforce products in bags of 1lb. or larger for distribution to ready-mix producers.

To encourage early participation in the One Label, One Store program Novex will:

- offer early entry price discounts for distributors that purchase additional products from Novex;

- arrange pre-scheduled store visits to demonstrate to the distributors' customers and employees the benefits of the new products;

- provide point-of-purchase (POP) displays and other marketing materials to assist the distributors' sale of the new products; and

- coordinate mailings of marketing pieces on the One Label, One Store program to the distributors's customers.

The existing line of Por-Rok products is sufficient to implement the One Label, One Store program since most retail customers, i.e. the "do-it-yourself" customers, do not typically have the need, experience or skill to work with the more sophisticated

construction products required by professional contractors. The Por-Rok product line currently consists of six products, including a relatively new product called Levelon, that can be used for most home repairs and maintenance including indoor floor and wall repair as well as for outside uses such as repair of concrete sidewalks, driveways, patios and to install poles and railings.

Before the One Store, One Label program can be offered to distributors of building materials, however, the product line will need to include a line of curing and sealing products, epoxy-based products, cement-based and latex waterproofing products and some additional flooring products. It is Novex's intention to add these products to its line by way of acquisition. Assuming an acquisition could be completed before the end of its fiscal year, this program could be implemented on the distribution side by the end of this calendar year. If we are unable to add the desired products to our line by way of acquisition, our ability to implement the one store, one label program could be delayed for a period of up to two years.

Both retail and distributor programs will require additional marketing material such as direct mailers and promotional materials that can be delivered with the products or by sales representatives. The costs associated with producing these materials is estimated to be $25,000-$30,000. We are unable to quantify the cost of acquiring companies with complementary products since this would depend upon a multitude of factors including the types of products they offer, their revenues, market share and distribution channels, and the size of their facilities, to name a few. For the immediate future, we would expect to finance any such transaction through outside financing rather than working capital. At present we do not have any financing in place nor would we seek any financing until an agreement had been reached with a potential target.

Improve Por-Rok's Sales Organization

Por-Rok currently markets its products by using the services of nine manufacturers' representatives. There are no full-time sales personnel to coordinate the sales and marketing function. Novex plans to dedicate one full-time salesperson to work with the manufacturer's representatives to adequately train them on Novex's products, along with other products that Novex plans to acquire and develop internally. In addition, the local manufacturer's representative will be responsible for obtaining new accounts in his territory, increasing sales of products to existing accounts in his territory and monitoring the sales activity of the Por-Rok, Sta-Dri and Fiberforce distribution outlets in his territory.

New Retail Channels

As part of Novex's efforts to expand sales of products in all possible distribution channels, Novex will work aggressively to expand Por-Rok's existing retail base by offering promotional discounts to other regional hardware outlets and purchasing cooperatives along with "big-box" stores like The Home Depot and Lowe's.

Advertising

Novex intends to present to the construction industry and the consumer an ongoing marketing campaign. To achieve this, Novex will establish and maintain an advertising and marketing budget. The budget will be used primarily to participate in trade shows and trade journal advertising. Where possible, Novex will participate in cooperative advertising. Novex is also creating promotional materials and has formulated marketing plans to increase sales by Novex and other representatives throughout the U.S. and Canada.

Future Acquisitions

Novex is currently considering the acquisition of companies that would expand its product line into specialized flooring and concrete repair products, cures and seals, moisture protection products, specialized industrial grouts, bonding agents, and other accessory products.

w. Number of Employees

As of May 31, 2001, Novex, on a basis, employed twelve (12) full-time employees. Of the 12 employees, eleven are located in Novex's principal executive offices and manufacturing facility in Clifton, New Jersey, and one is located at Novex's sales office in Atlanta, Georgia. Of the 12 employees, three persons are in management positions, six persons are in plant operations and three persons occupy sales and administrative positions. With the Por-Rok acquisition, Novex now has a collective bargaining agreement with the plant personnel in Clifton. Novex has not experienced any work stoppages as a result of labor disputes and considers its employee relations to be good.

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. Upon closing that transaction, Novex became the owner of all the real property, buildings and personal property located at 16 Cherry Street, Clifton, New Jersey. The real property consists of a 1.58 acre tract of commercially-zoned land with three separate buildings. The main building is 15,000 square feet, of which 3,000 square feet is dedicated to office space and a reception area and the remaining 12,000 square feet is allocated to the manufacturing of Por- Rok products and the warehousing of certain raw materials. The other two buildings at the Por-Rok facility are approximately 5,000 square feet each and are used for warehousing supplies, raw materials and finished goods. In addition, there is another 10,000 square feet of undeveloped land that could be used to expand the manufacturing and warehousing capacity of this facility. This operating plant currently runs at approximately 25% of its capacity on a two shift level.

Management believes that the facilities used by it in the operation of its business are adequately covered by insurance and are suitable and adequate for their respective purposes.

Item 3. Legal Proceedings

On August 12, 1997, a shareholder who was once a director and officer of Novex ("the Plaintiff") commenced an action against Novex and its former president, Mr. A. Roy Macmillan, to enjoin Novex from taking any action that would restrict the sale of up to 300,000 shares of common stock that he allegedly owns and for the costs he will incur to conduct the lawsuit. He has not asked for, nor does Novex expect him to ask for, damages. The Plaintiff has since named Novex's current president, Mr. Dowe, in the lawsuit. The Plaintiff has no other affiliation with Novex other than for being a shareholder. The plaintiff submitted a motion for summary judgment which the court denied. Novex has raised several defenses to this action and believes that plaintiff's claims are without merit. Novex has also asserted multiple counterclaims against the plaintiff and, in December, 1999, it asserted multiple claims against two third-party defendants, Herbert Adams, a former consultant to the company, and Colin Raynor, a former director and former outside counsel to the company Novex has alleged that the plaintiff and the two third-party defendants (none of whom are presently affiliated with Novex) had caused the company to issue them stock for work that was never done and at a time when current management believes that fraudulent activities were being undertaken which caused the company's stock price to be overinflated. All three individuals are claiming that they received stock as compensation for services rendered. When Novex investigated the matter it found virtually no records of any tangible service. Their actions and omissions caused the U.S. Securities and Exchange Commission in or about 1997 to commence an investigation of the company, then known as Stratford Acquisition Corp. It is Novex's understanding that the investigation is still pending and the Company has no information as to what action, if any, the SEC may take pursuant to the investigation. Mel Greenspoon vs. Stratford Acquisition Corporation, et. al., Ontario Court (General Division), Index No. 97-CV-126814.

On July 31, 2001, Novex entered into a settlement agreement for $25,317.39 with Bemis Company, Inc. to settle a dispute relating to outstanding invoices. Bemis Company Inc. v. Novex Systems International, Inc., Superior Court of New Jersey (Passaic County), Index No. PAS-L-1859-01.

On January 25, 2001, Novex entered into a settlement agreement for $46,256.70 with Estes Express Lines to settle a dispute relating to shipping charges incurred in early 2000. As of the date of this filing, approximately $17,346.30 has been paid. Estes Express Lines v. Novex Systems International, Inc., Commonwealth of Virginia, (Richmond Circuit Court), Index No. 760CL00L01946- 00.

Novex is currently negotiating a settlement agreement for $11,386.00 with SKW Chemical co. to settle a dispute relating to outstanding invoices. SKW Chemical Co. v. Novex Systems International, Inc., Superior Court of New Jersey (Passaic County), Index No. L-002809-01.

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

During the fiscal year ended May 31, 2001, there were no proposals submitted to a vote of the shareholders. The company intends to call a shareholders meeting at the end of the calendar year.

21

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 first two quarters of the fiscal year ending May 31, 2001 the four quarters in the fiscal year ending May 31, 2000 and May 31, 1999, 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, 2001, the closing bid price was $.15. Novex has paid no cash dividends in the fiscal year ended May 31, 2001 and does not expect to change its dividend policy in the foreseeable future.

Quarterly Common Stock Bid Price Ranges

Quarter	High	Low	Last Day of Quarter
1st	$.17	$.12	August 31, 2000
2nd	$.15	$.06	November 30, 2000
3rd	$.12	$.04	February 28, 2001
4th	$.07	$.05	May 31, 2001

Quarter	High	Low	Last Day of Quarter
1st	$.32	$.31	August 31, 1999
2nd	$.19	$.17	November 30, 1999
3rd	$.25	$.15	February 28, 2000
4th	$.28	$.14	May 31, 2000

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 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 statement of operations for the two years ended May 31, 2001 and 2000 and balance sheet as of May 31, 2001 and 2000 have been derived from the financial statements of Novex that are included elsewhere in this Form 10-KSB and that have been audited by Feldman Sherb & Co., P.C. whose reports with respect to the financial statements are also included elsewhere in this Prospectus. This information should be read in conjunction with the financial statements and notes to the financial statements appearing elsewhere in this Form 10-KSB and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Years ended May 31,	
	2001	2000
STATEMENT OF OPERATIONS DATA:		
Net sales	$ 2,007,705	$ 1,592,562
Gross Profit	616,864	649,341
Loss from continuing operations	(1,167,834)	(926,073)
Loss from discontinued operations	(277,180)	(291,583)
Extraordinary item	64,061	--
Net loss	(1,380,953)	(1,217,656)
Net loss per common share		
From continuing operations	(0.05)	(0.05)
From discontinued operations	(0.01)	(0.01)
From extraordinary item	--	--
Total loss per common share	$ (0.06)	$ (0.06)
Weighted average number of common shares outstanding	23,569,139	19,516,019
BALANCE SHEET DATA		
Working capital deficiency	$ (2,546,806)	$ (2,972,578)
Goodwill, net	678,236	826,465
Total assets	2,533,121	3,188,424
Current liabilities	3,083,929	3,923,751
Long-term debt	--	--
Stockholders' deficiency	(550,808)	(735,327)

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

Results of Operations

Year ended May 31, 2001 (Fiscal 2001) as compared to May 31, 2000 (Fiscal 2000)

While net sales for the year ending May 31, 2001 was $2,007,705 net sales for the same period ended May 31, 2000, were 1,592,562. The increase in sales was attributable principally to the Company's acquisition of the Sta-Dri Masonry Waterproofing Product Line on August 1, 2000 and efforst that Novex has made to increase sales overall with its complete product line.

Novex only achieved a gross margin of 31% for the year ending May 31, 2001. The decrease in gross margin during this period was attributable primarily to the discontinuation of certain products that it purchased in 1999 from The Sherwin-Williams Company and some products that were associated with Novex' Canadian operation. Any further change in the gross margin will result directly from changes in product sales mix and sales volume.

For the year ending May 31, 2001, the Company generated a loss from operations of $777,837. Included in this loss is approximately $251,318 in bad debts relating to pricing discrepancies and billing problems involving the transition of the Por-Rok and Sta-Dri businesses into Novex's operations. A substantial portion of this amount was not realized until the beginning of the fiscal year ending May 31, 2001. In addition, Novex wrote-off $192,647 in inventory for obsolete and discontinued inventory. With the Sta-Dri acquisition Novex sought to eliminate duplicate products and focus more on higher margin products where the existing sales volume was satisfactory and products that the company would seek to grow through more focused marketing efforts. Also, in this period, the Company incurred non- cash charges for depreciation and amortization (including amortization of debt discount) of $222,595. The aggregate of the non-recurring write-offs taken in fiscal year 2001 and the non-cash expenses was $691,560.

In October, 2001, the manufacturing operations of Novex Canada was discontinued after it had sold its fiber manufacturing business to Interstar Admixture Co. and its cement product operation to QEP/Roberts, Ltd. As a result of the sale of the Canadian operations, Novex recognized a loss from operations of $48,124 and a loss on the disposal of Novex Canada's operation of $229,056. Novex does not expect the discontinued operations of its Canadian subsidiary to have any further impact on future operations.

In addition, on account of Novex having been in a default position on its term loan with Dime Commercial Corp. its rate of interest from September 1, 2000 through May 31, 2001 was approximately 2% over the referenced rate set forth in the loan agreements. In July, 2001 upon the final payment of the overadvance balance, the interest rates reverted back to the referenced rate in the loan agreements. Due to the increased interest rate Novex paid approximately twenty percent more in interest than had the rate been the standard rate.

As of May 31, 2001, the Company had $537,123 in current assets, which consisted principally of accounts receivable of $302,649 and inventory of $204,254. The Company's net property, plant and equipment totaled $1,317,762 and goodwill of $678,236 which is attributable to the two acquisitions that the Company completed in 1999 and 2000.

Year ended May 31, 2000 (Fiscal 2000) as compared to May 31, 1999 (Fiscal 1999)

While net sales for the year ending May 31, 2000 was $1,592,562 net sales for the same period ended May 31, 1999, were $321,311. The increase in sales was attributable principally to the Company's acquisition of the Allied Composition/Por-Rok business unit from The Sherwin-Williams Company ("Por-Rok Unit") on August 13, 1999.

Novex achieved a gross margin of 41% for the year ending May 31, 2000. The decrease in gross margin during this period was attributable to two factors. The first factor being that for the year ended May 31 1999, the Novex's revenues were primarily derived from the sale of its Fiberforce products which have considerably higher gross margins whereas for the year ended May 31, 2000, Novex generated a much higher volume of sales of its Por-Rok product line which has a lower gross margin than the Fiberforce products. Secondly, Novex made a substantial sale of its Fiberforce product at wholesale prices to a reseller of fiber. This also contributed to the lower margin. Management does not expect any further decline in the gross margin. Rather it expects the gross margin to reach a higher level with sales volume increases which will reduce the percentage of fixed factory overhead as a percentage of total net sales. . Any further change in the gross margin will result directly from changes in product sales mix and sales volume.

For the year ending May 31, 2000, the Company generated a loss from operations of $647,640. The Company also incurred approximately $270,000 in outgoing freight expenses which the Company will pass on to its customers through a new pricing and shipping policy that became effective on June 1, 2000. Although the new pricing and shipping policy was mailed to all Por-Rok customers in March, its implementation was delayed until June to accommodate major customers who wanted 90 days to implement the new policy within their own organizations. Also, in this period, the Company incurred non-cash charges for depreciation and amortization (including amortization of debt discount) of $124,791 and incurred non-recurring charges of approximately $20,000 relating to the service agreement it entered into with Sherwin-Williams which terminated on February 29, 2000 . In addition, as part of its acquisition of the Por-Rok business, Novex was required to register the stock issued to Sherwin-Williams which cost approximately $100,000 in auditing, legal internal accounting charges to complete the work. The net effect of the non-cash accounting charges, non-recurring costs and the freight expenses, would have resulted in the Company posting a net operating loss of $143,269 before expenses for interest which for the year totaled $259,580.

For the year ended May 31, 2000, the Company's overall operating results do not reflect a normalized operation due to the seasonal slowdown at Novex, Ltd. in this period. In addition, these results reflect only nine and one-half months of the Por-Rok operation which was acquired on August 13, 1999.

As of May 31, 2000, the Company had $951,173 in current assets, which consisted principally of accounts receivable of $553,270 and inventory of $389,578. The Company's net property, plant and equipment totaled $1,399,341 and goodwill of $826,465 which is attributable to the two acquisitions that the Company completed in 1998 and 1999. All of the Company's asset categories increased substantially when compared to its year ending balance sheet dated May 31, 1999 due to the integration of the assets it acquired in August 1999 as part of the Por-Rok transaction.

25

Liquidity and Financial Resources

As of May 31, 2001, the Company had $3,083,929 in current liabilities, which includes a bridge loan of $886,000, a term loan of $774,167 and a revolving line of credit of $456,408 with Dime Commercial Corp. which is used to fund the Company's operations. It had accounts payable of $511,565, accrued expenses of $115,974, accrued preferred stock dividend payable of $115,886, and a cash overdraft of $28,343.

The loans from shareholders of $72,018, consists of a loan made by Novex' current president, Daniel W. Dowe, in June and July, 1999 to assist Novex with its operating cash flow needs before we acquired the Por-Rok Unit and opened the line of credit with Dime Commercial Corp. and the remaining balance of $18,000 that is owed on a downpayment of $72,000 that Mr. Dowe made at the Sta-Dri acquisition. The $72,000 paid by Mr. Dowe to the former Sta-Dri shareholders was in the form of a check that was secured by 350,000 shares of common stock owned by Mr. Dowe. Mr. Dowe has entered into an agreement with the baord of directors to have the Sta-Dri loan repaid without interest. 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.

On December 21, 2000, Novex obtained from a private investor a six-month secured bridge loan in the amount of $600,000. The bridge loan bears interest at a rate of 10% per annum. In exchange for the bridge financing, Novex issued 600,000 shares of its common stock to the investor. The Bridge Note is secured by the same assets as, and is subordinated to, the Dime Note (discussed below). During the period February 21, 2001, through May 22, 2001, the same private investor made three additional bridge loans of $286,000 for which he received 150,000 shares of common stock as of May 31, 2001. An additional 136,000 shares were issued after the company's fiscal year end. The terms of the additional bridge loans are identical to those of the original Bridge Note. He also made an equity investment of $50,000 on January 21, 2001 for which he received 625,000 shares of Novex' common stock.

The current portion of the long-term debt consists of a three year term loan and put warrant totalling $796,531 (originally $890,000) that was made by Dime Commercial Corp. to enable the Company to acquire the Por-Rok Unit (the "Dime Note"). The remaining portion of the purchase price for the Por-Rok Unit was paid with the Sherwin-Williams Note which has been converted into 1,390,388 preferred shares. Included in the current portion of long-term debt is a debenture payable for $125,000 that is past due as it matured on May 31, 1999. This $125,000 note is the remaining balance on a bridge loan of $250,000 that was purchased by Novex' largest shareholder, which is a private equity fund managed by Quilcap Corporation.

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

26

On September 1, 2000, Dime Commercial Corp. issued a formal default notice to the company and demanded full payment of its two notes. The default notice was retracted on December 26, 2000 as a result of Novex's payment of approximately $444,000 on the Dime's credit facility. The funds to pay down the loans were made available through the sale of Novex' Canadian facility as well as through the secured bridge loan of $600,000 which the company received from a private investor on December 21, 2000.

As of May 31, 2001, the Company was not in compliance with several of the financial covenants and has not received a waiver from Dime Bank. Therefore, long-term debt has been classified in the accompanying balance sheet as current liabilities.

For the year ended May 31, 2000, Novex has been able to increase sales volume while selling, general and administrative expenses have remained relatively constant when compared to year ended May 31, 1999. The increase in sales has resulted in higher levels of accounts receivable and inventory as well as accounts payable and accrued expenses. In addition, the acquisition of Por-Rok has increased the amount of debt, which has resulted in higher amounts of interest payments that Novex needs to fund from operations. Therefore, while there has been a decline in negative cash flows from operations from $974,220 for the year ended May 31, 1999 to $752,930 for the year ended May 31, 2000, Novex still has generated negative cash flows from operations. Thus, while future operating cash inflows should continue to increase, unless Novex's sales volume increases, the company will not have sufficient cash flow to cover its operating, investing and debt payment requirements. Therefore, Novex has developed plans to improve profitability and cash flows and to raising capital, if necessary.

To improve Novex's profitability, management is undertaking a number of initiatives to increase sales and reduce expenses. For example, Novex has issued a new price list and freight policy that became effective June 1, 2000. The new price list will improve Novex's margins on sales of its Por-Rok products and the new freight policy will pass all outgoing freight charges to the customers. Novex will also begin marketing some of its former Novacrete products under the Por-Rok brandname to existing Por-Rok customers. In addition, management is aggressively pursuing sales of the Por-Rok products to large home center stores and major cooperative retailers of building materials.

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

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

Inflation and Changing Prices

Novex does not foresee any risks associated with inflation or substantial price increase in the near future. In addition, the raw materials that are used by Novex in the manufacturing of its materials are available locally through many sources and are for the most part commodity products. The one raw

material that Novex uses in all its products that cannot be classified as a pure commodity is currently in sufficient supply. For these reasons, while Novex will always have exposure to inflationary risks, it does not believe that inflation will have any materially significant impact on its operations in the near future.

Item 8. Financial Statements and Supplementary Data Page

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
Novex Systems International, Inc.

We have audited the accompanying balance sheet of Novex Systems International, Inc. as of May 31, 2001 and 2000 and the related statements of operations, changes in shareholders' deficiency and cash flows for the years ended May 31, 2001 and 2000. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits 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 the overall financial statement presentation. We believe that our audits provide 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 Novex Systems International, Inc. as of May 31, 2001 and 2000 and the results of its operations, changes in shareholders' deficiency and cash flows for the years ended May 31, 2001 and 2000 in conformity with generally accepted accounting principles in the United states of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 (a) to the financial statements, the Company has incurred a net loss of $1,380,953 during the year ended May 31, 2001, and, as of that date had a working capital deficiency of $2,546,806 and a shareholders' deficiency of $550,808. As more fully described in Notes 10 and 11 (c) to the financial statements, the Company is not in compliance with several of the financial covenants with a bank, and is in arrears on accounts with certain vendor creditors. The Company's business plan for year ended May 31, 2002, which is described in Note 2 (a) to the financial statements, contemplates obtaining additional working capital, and the refinancing or restructuring of its debt. The Company's ability to achieve the foregoing elements of its business plan, which may be necessary to permit the realization of assets and satisfaction of liabilities in the ordinary course of business, is uncertain. Those conditions raise substantial doubt about 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/ Feldman Sherb & Co., P.C.
Feldman Sherb & Co., P.C.
Certified Public Accountants

New York, New York
August 10, 2001, except for Note 17,
as to which the date is August 15, 2001

NOVEX SYSTEMS INTERNATIONAL, INC.
BALANCE SHEET
MAY 31, 2001

ASSETS

CURRENT ASSETS:	
Accounts receivable, net of allowance for doubtful accounts of $53,347	$ 302,649
Inventories	204,254
Prepaid expenses and other current assets	30,220
Total Current Assets	537,123
PROPERTY, PLANT AND EQUIPMENT - at cost, net	1,317,762
GOODWILL - at cost, net	678,236
	$ 2,533,121

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

CURRENT LIABILITIES:	
Cash overdraft	$ 28,343
Current portion of long term debt	1,783,755

Bank line of credit	456,408
Accounts payable	511,565
Loans payable - shareholder	72,018
Accrued preferred stock dividend payable	115,866
Accrued expenses and other current liabilities	115,974
Total Current Liabilities	3,083,929
COMMITMENTS AND CONTINGENCY	
SHAREHOLDERS' DEFICIENCY:	
Preferred stock - $0.001 par value, 10,000,000 shares authorized, 1,390,388 shares issued and outstanding	1,390,388
Common stock - $0.001 par value, 50,000,000 shares authorized, 24,648,988 shares issued and outstanding	24,649
Additional paid-in capital	6,096,020
Accumulated deficit	(8,061,865)
Total shareholders' deficiency	(550,808)
	$ 2,533,121

See notes to financial statements.

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS

	Year Ended May 31,	
	2001	2000
NET SALES	$ 2,007,705	$ 1,592,562
COST OF GOOD SOLD	1,390,841	943,221
GROSS PROFIT	616,864	649,341
SELLING, GENERAL AND ADMINISTRATIVE	1,394,701	1,296,981
LOSS FROM OPERATIONS	(777,837)	(647,640)
OTHER INCOME (EXPENSES):		
Interest expense	(279,735)	(259,583)
Amortization of debt discount	(90,613)	(34,583)
(Loss) gain on change in valuation of put warrant	(19,649)	15,733

OTHER EXPENSES, net	(389,997)	(278,433)
LOSS FROM CONTINUING OPERATIONS	(1,167,834)	(926,073)
DISCONTINUED OPERATIONS:		
Loss from operations of Novex Canada	(48,124)	(291,583)
Loss on disposal of Novex Canada including operating losses during the phase out period of $102,190	(229,056)	--
LOSS FROM DISCONTINUED OPERATIONS	(277,180)	(291,583)
LOSS BEFORE EXTRAORDINARY ITEM	(1,445,014)	(1,217,656)
EXTRAORDINARY ITEM:		
Gain on extinguishment of debt	64,061	--
NET LOSS	(1,380,953)	(1,217,656)
Less: Preferred stock dividend	115,866	--
NET LOSS TO COMMON SHAREHOLDERS	$ (1,496,819)	$ (1,217,656)
LOSS PER COMMON SHARE, basic and diluted:		
From continuing operations	(0.05)	(0.05)
From discontinued operations	(0.01)	(0.01)
From extraordinary item	--	--
TOTAL LOSS PER COMMON SHARE, basic and diluted	$ (0.06)	$ (0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted	23,569,139	19,516,019

See notes to financial statements.

F-4

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

	Preferred Stock		Common Stock		Additi Paid Capi
	Shares	Amount	Shares	Amount	
BALANCE, May 31, 1999	--	$ --	15,250,771	$15,251	$4,40
Issuance of common stock					

in connection with acquisition	--	--	1,000,000	1,000	25
Issuance of common stock					
for services	--	--	150,000	150	2
Issuance of common stock					
for debt	--	--	5,627,493	5,628	1,02
Issuance of common stock					
with loan from shareholder	--	--	20,000	20	
Issuance of common stock for cash	--	--	40,000	40	
Issuance of common stock					
for compensation	--	--	99,474	99	2
Redemption of common stock			(43,750)	(44)	
Value of options issued for services	--	--	--	--	5
Net loss	--	--	--	--	
BALANCE, May 31, 2000	--	--	22,143,988	22,144	5,80
Issuance of common stock					
in connection with acquisition	--	--	1,000,000	1,000	13
Issuance of common stock					
for services	--	--	130,000	130	
Issuance of common stock for cash	--	--	625,000	625	4
Issuance of series A preferred stock -					
for debt	1,390,388	1,390,388	--	--	
Issuance of stock in connection					
with note payable	--	--	750,000	750	9
Preferred stock dividend					
Net loss	--	--	--	--	
BALANCE, May 31, 2001	1,390,388	$ 1,390,388	24,648,988	$24,649	$6,09

See notes to financial statements

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

	Year Ended May	
	2001	2
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,380,953)	$(1,
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for bad debts	251,318	
Depreciation and amortization	131,982	
Loss (gain) on change in valuation of put warrant	19,649	
Gain on extinguishment of debt	(64,061)	
Common stock and options issued for payment of services and compensation	8,000	
Options issued as payment for services	--	
Amortization of debt discount	90,613	
Changes in assets and liabilities, net of the effect from acquisition:		
Accounts receivable	(697)	(

Inventories	185,324	
Prepaid and other current assets	(22,180)	
Other assets	11,445	
Net assets from discontinued operations	433,454	
Accounts payable	(40,339)	
Accrued interest	--	
Accrued expenses and other current liabilities	(38,977)	
NET CASH USED IN OPERATING ACTIVITIES	(415,422)	(
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(424)	
Acquisition of business, net of cash acquired	(108,588)	(
NET CASH USED IN INVESTING ACTIVITIES	(109,012)	(
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash overdraft	(11,954)	
Due to factor	(68,184)	
(Repayment of) proceeds from loans payable - shareholders	530	
(Repayment of) proceeds from bank line of credit	(244,902)	
Proceeds from debt financing	886,000	
Repayment of debt obligations	(87,341)	(
Proceeds from issuance of debt with warrants	--	
Proceeds from the sale of common stock and exercise of options	50,000	
NET CASH PROVIDED BY FINANCING ACTIVITIES	524,149	1,
NET DECREASE IN CASH	(285)	
CASH AT BEGINNING OF YEAR	285	
CASH AT END OF YEAR	$ --	$
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 159,987	$
Income taxes	$ --	$
Non-cash flow and investing and financing activities:		
Conversion of debt to equity	$ 1,390,388	$ 1,
Common stock issued for assets acquired	$ 137,000	$
Note payable issued for assets acquired	$ --	$ 1,
Accrued preferred stock dividend payable	115,866	

See notes to financial statements.

NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2001 AND 2000

1. DESCRIPTION OF BUSINESS

Novex Systems International, Inc. ("Novex" or the "Company") is engaged in 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 is retailers, construction professionals and distributors located throughout the United States and in certain areas of Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation - The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred net losses of $1,380,953 and $1,217,656 for the years ended May 31, 2001, and 2000, respectively. Additionally, the Company had approximately a net working capital deficiency of $2,546,806, an accumulated deficit of $8,061,865 at May 31, 2001 and negative cash flow from operations for the years ended May 31, 2001 and 2000, of $415,422 and $616,853, respectively. Those conditions raise substantial doubt about the Company's ability to continue as a going concern. Management expects to incur additional losses for the foreseeable future and recognizes the need to raise capital to achieve their business plans. During fiscal year 2001, the Company raised $886,000 from short term financing and $50,000 from the issuance of 625,000 shares of common stock (see Notes 11(a) and 12 (c)). In addition, in August 2000, the Company converted $1,281,351 of notes payable plus accrued interest of $109,038 into cumulative 10% series A convertible redeemable preferred stock (see Note 12). The Company plans to raise additional capital through various methods including the private placements of securities, and the issuance of debt. Further, the Company plans to enhance its existing product line and is developing new marketing strategies. In addition, the Company will search for potential strategic acquisitions that will complement the Company's existing products and that are synergistic with its future growth prospects. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

b. Inventories - Inventories are stated at the lower of cost (first-in, first-out method) or market.

c. Property, Plant and Equipment - Property and equipment are recorded at cost. Depreciation is provided on the straight-line method based upon the estimated useful lives of the respective assets. Property and equipment are being depreciated over a period of five years. Maintenance, repairs and minor renewals are charged to operations as incurred, whereas the cost of significant betterments is capitalized. Upon the sale or retirement of property and equipment, the related costs and accumulated depreciation are eliminated from the accounts and gains or losses are reflected in operations.

d. Impairment of Long-Lived Assets - The Company reviews long-lived assets, certain identifiable assets and goodwill related to those assets on a quarterly basis for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. At May 31, 2000, the Company does not believe that any impairment has occurred.

e. Income Taxes - The Companies utilizes the asset and liability method of accounting for income taxes as set forth in FASB Statement No.109, "Accounting for Income Taxes". Under the asset and liability method, deferred taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

f. Fair Value of Financial Instruments - The carrying value of accounts receivable, prepaid expense and other current assets, 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.

g. Revenue Recognition - Revenue is recognized when the product is shipped to the customer. Allowances for estimated bad debts, sales returns and allowances are provided when sales are recorded.

h. Shipping and Handling Fees - The Company records the amounts billed to customers for shipping and handling in net sales and the related costs in selling, general and administrative expenses. For the years ended May 31, 2001 and 2000, the Company recorded shipping and handling fees of $264,406 and $280,242, respectively.

i. 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, 2001 and 2000 amounted to approximately $41,015 and $ 8,500, respectively.

j. Loss Per Share - Basic net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding. For the years ended May 31, 2001 and 2000, diluted loss per share is the same as basic loss per share since the inclusion of stock options and warrants would be antidilutive.

k. Stock Options -The Company accounts for all transactions under which employees, officers and directors receive shares of stock in the Company in accordance with the provisions of Accounting Principles Board Opinion No. 25. "Accounting for Stock Issued to Employees." In accordance with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," the Company adopted the pro forma disclosure requirements of SFAS 123. Accordingly, no compensation has been recognized in the results of operations for the employees, officers and directors stock option plan.

l. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. 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.

n. 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.

o. Reclassification - Certain reclassifications have been made to the 2000 financial statements in order to conform with the 2001 presentation.

p. Recent Accounting Pronouncements - In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 as amended by SFAS No. 137 and SFAS No. 138 is effective for all fiscal periods beginning after June 15, 2000. SFAS No. 133 require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. The Company does not expect the adoption of SFAS No. 133 as amended by SFAS No. 137 and SFAS No. 138 to have a material impact on the financial statements.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. SAB 101 provides interpretative guidance on the recognition, presentation and disclosure of revenue. SAB 101 was applied to financial statements in the second quarter of fiscal 2001. We do not believe that the application of SAB 101 had a material effect on our financial position or results of operations.

F-9

In March 2000, the FASB issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25. The interpretation clarifies the application of Accounting Principles Board (APB) Opinion No. 25 in certain situations, as defined. The interpretation is effective July 1, 2000, but covers certain events occurring during the period after December 15, 1998, but before the effective date. To the extent that events covered by this interpretation occur during the period after December

15, 1998, but before the effective date, the effects of applying this interpretation would be recognized on a prospective basis from the effective date. We do not anticipate that the adoption of this interpretation will have a material effect on our financial position or results of operations.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting and prohibits the use of the pooling-of-interests method for such transactions. SFAS No. 142 applies to all goodwill and intangible assets acquired in a business combination. Under the new standard, all goodwill, including goodwill acquired before initial application of the standard, should not be amortized but should be tested for impairment at least annually at the reporting level, as defined in the standard. Intangible assets other than goodwill should be amortized over their useful lives and reviewed for impairment in accordance with SFAS no. 121. The new standard is effective for fiscal years beginning after December 15, 2001. The Company must adopt this standard on June 1, 2002.

3. DISCONTINUED OPERATIONS AND EXTRAORDINARY GAIN

In October and December 2000, the Company entered into agreements to sell the assets, except for accounts receivable and the Fiberforce trade name, of its subsidiary, Novex Systems International, Ltd. ("Novex Canada"), for approximately $245,300. During March through May 2001, the Company entered into a settlement with its creditors, which resulted in an extraordinary gain from extinguishment of debt of $64,061.

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

Summarized results of the discontinued operation is as follows:

	Years Ended May 31	
	2001	2000
Net Sales	$ 100,643	$ 269,521
Loss from operations	(48,124)	(291,583)
Loss on disposal	(229,056)	--
Total loss on discontinued Operations	$(277,180)	$(291,583)

4. CONCENTRATION OF CREDIT RISK

a. Cash

The Company maintains cash balances at a commercial bank. Accounts at this financial institution are insured by the Federal Deposit

Insurance Corporation up to $100,000.

b. Accounts Receivable

The concentration of credit risk in the Company's accounts receivable is mitigated by the Company's credit evaluation process, credit limits, monitoring procedures and reasonably short collection terms. Credit losses have been within management's expectations and the Companies do not require collateral to support accounts receivable.

5. INVENTORIES

At May 31, 2001 inventories consist of the following:

Raw Material	$ 49,807
Work in Progress	89,887
Finished Goods	64,560
	$204,254

6. PROPERTY, PLANT AND EQUIPMENT

At May 31, 2001 property, plant and equipment consists of the following:

Land	$ 400,000
Building	415,000
Property and equipment	623,098
Leasehold Improvements	22,642
	1,460,740
Less: Accumulated depreciation and amortization	(142,978)
	$ 1,317,762

7. GOODWILL

Goodwill arose in connection with the acquisitions of Arm Pro in September 1998, and with the acquisition of Allied / Por-Rok lines in August 1999 and Sta-Dri in August 2000 (see Note 15). Goodwill is being amortized on the straight-line method over 10 years for Arm Pro and over 15 years for Allied / Por-Rok and Sta-Dri. As of May 31, 2001, goodwill, net of accumulated amortization of $79,470, is $678,236. Amortization expense charged to operations for fiscal year 2001 and 2000 was approximately $48,000 and $61,000, respectively.

8. LOANS PAYABLE -SHAREHOLDER

Loans payable to shareholder is non-interest bearing, has no specific due date for repayment and is uncollateralized.

9. INCOME TAXES

At May 31, 2001, the Company has available unused net operating loss carryovers approximately $7,900,000 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.

	2001
Deferred tax asset:	
Net operating loss carryforward	$ 3,160,000
Valuation allowance	(3,160,000)
Net deferred tax asset	$ --

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

	2001	2000
Statutory federal income tax benefit	$ 578,000	$ 487,000
Income tax benefit not utilized	(578,000)	(487,000)
Actual tax benefit	$ --	$ --

10. BANK LINE OF CREDIT

In connection with the acquisition of the Allied/Por-Rok division of The Sherwin Williams Company, Novex Systems International, Inc. obtained a $750,000 line of credit from Dime Commercial Corp. (see Note 15 (b)). The line provides working capital and is secured by accounts receivable and inventory. Advances under the line are based on 80% of eligible accounts receivables and 50% of eligible inventory. Interest is computed on the average monthly balance under the line based on 4% above the prime rate (At May 31, 2001 is 11%).

As of May 31, 2001, the Company was not in compliance with several of the financial covenants (see Note 11 (c)).

11. LONG TERM DEBT

At May 31, 2001, long-term debt consists of:

Notes payable (a)	$ 886,000
Debenture payable (b)	125,000
Dime note payable (c)	774,167
Dime put warrant (c)	22,364
	1,807,531
Less: Unamortized debt discount	23,776
	1,783,775
Less: Current portion	1,783,775
	$ --

(a) The notes payable bear interest at 10% per annum and the principal plus accrued interest is due on September 15, 2001. 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. At May 31, 2001, the debt discount is $15,576 and the amortization of debt discount charged to operations for fiscal 2001 is $80,375.

(b) Included in long-term debt are debentures owing to a stockholder of the company, Quilcap, Corp., in the amount of $125,000. This debenture from February 25, 1999, bears interest at 15% per annum and matured on May 31, 1999.

(c) The Company is obligated to Dime Commercial Corp. for $774,167 under a term loan. The term loan has been recorded net of a discount of $8,200 as a result of the put warrant. Amortization of discount charged to operations for fiscal year 2001 was $6,800. The loan provides for monthly interest payments based on the prime rate plus four percent (At May 31, 2001 is 11%). Installments due under the loan begin on March 13, 2000 in the amount of $7,722 per month. The loan matures on August 13, 2002 with a balloon payment of $655,000. There was a put warrant granted with the term loan, exercisable at $.25 and having an expiration date of September 1, 2002. In accordance with Emerging Issues Task Force No. 96-13 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock," we have allocated $24,316, to the put warrant and recorded the amount as part of long-term debt as of May 31, 2001. As a result of the change in valuation from $4,667 on May 31, 2000 to $24,316 as of May 31, 2001 the Company recognized $19,649 in other expenses. Subsequent changes in the measure of fair value of the put warrant will be reported in the statement of operations. The note is collateralized by all of Novex's property, plant and equipment at the Clifton facility (see Note 15 (b)).

As of May 31, 2001, the Company was not in compliance with several of the financial covenants and has not received a waiver from the bank. Therefore, long-term debt has been classified in the accompanying balance sheet as current liabilities.

12. SHAREHOLDERS' DEFICIENCY

Preferred Stock

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

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, 2002.

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

Additionally, the Company cannot declare and pay any cash or stock dividends to any other class of equity securities until the series A preferred stock has been redeemed or converted to common stock.

Common Stock

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

b. In August 1999, the Company issued 1,000,000 shares of its common stock in connection with the acquisition of the Allied/Por-Rok business. These shares were valued at market prices of approximately $.26 per share (see Note 15 (b)).

During the year ended May 31, 2000 the Company issued 150,000 shares of its common stock in connection with investor services. These shares were valued at market prices of approximately $.16 per share.

In September 1999, the Company converted approximately $1,031,000 of various notes and debentures debt including accrued interest into 5,627,493 shares of its common stock. These shares were valued at market prices ranging from $.18 to $.27 per share.

During the year ended May 31, 2000, the Company issued 99,474 shares of its common stock as compensation to three board members for their services. These shares were valued at prices ranging between $.19 to $.25 per share.

During the year ended May 31, 2000, the Company renegotiated the terms of prior employment and consulting agreements. As a result of these discussions with various employees and consultants, they voluntarily agreed to surrender 43,750 shares of common stock issued for past services. These shares were recorded as a reduction to additional paid in capital.

c. In February 2001, the Company raised $50,000 from the sale of 625,000 shares of restricted common stock.

In August 2000, the Company issued 1,000,000 shares of common stock in connection with the acquisition of certain assets from The Sta-Dri Company (See Note 15 (a)).

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

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

During the year ended May 31, 2001, the Company issued 750,000 shares of its common stock to an affiliate as consideration for notes payable of $886,000 (see Note 11(a)). These shares were valued at prices ranging between $.056 to $.061 per share.

13. STOCK OPTIONS

The following table summarizes the activity with regard to options and warrants for the year ended May 31, 2000. No options or warrants were granted, cancelled or exercised in fiscal 2001 (See below for chart references).

	Stock Options			
	Shares	Exercise Price	Exercisable	Shares
May 31, 1999	2,452,772	0.25 - 0.50	2,452,772	3,214,504

Granted	(1)	72,500	0.30 - 0.35	72,500	(2)	233,365
Granted		--	--	--	(3)	32,000
Granted		--	--	--	(3)	305,000
Cancelled	(1)	(1,151,848)	(0.35)	(1,151,848)	(2)	(2,650,000
Expired		--	--	--	(4)	(308,000
Cancelled		--	--	--	(2)	(91,504
May 31, 2000 and 2001		1,373,424	$ 0.25 - 0.50	1,373,424		735,365

(1) issued for employee services, including directors fees

(2) issued with debt

(3) issued for consulting services

(4) expired warrants issued to employees and issued with debt

a. During fiscal 2000 the Company issued 337,000 warrants to various consultants for services rendered during the year ended May 31, 2000. The warrants expire three years from the various dates of grant and have an exercise price ranging from $0.25 to $0.50 per share. The Company recorded $56,035 in consulting expenses in the accompanying consolidated statement of operations.

b. The Company in the year ended May 31, 2000 cancelled 575,924 options, issued to a director of the Company.

c. The Company in the year ended May 31, 2000, resolved outstanding financial and legal matters with the Company's former president. The Company agreed to pay $10,000 to the former president, and to release all restricted common stock registered in the former president name. In addition, the former president agreed to surrender and have cancelled 575,924 options and 91,504 warrants that were previously issued.

14. STOCK-BASED COMPENSATION

The Company accounts for its stock option plans under APB No. 25, "Accounting for Sock Issued to Employees," ("APB 25"), under which no compensation cost is recognized. In fiscal 1997, the Company adopted SFAS no. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") for disclosure purposes; accordingly, no compensation has been recognized in the results of operations for its stock option plan as required by APB 25. No options or warrants have been granted to employees, officers and directors during fiscal year 2001.

For disclosure purposes, the fair value of options is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for stock options granted during fiscal year ended May 31, 2000: annual dividends of $0; expected volatility of 195% for the year ended May 31, 2000; risk free interest rate of 6%; and expected lives ranging from 2.5 to 5. The weighted average fair values of stock options granted during the year ended May 31, 2000 was $0.32, respectively.

	Year Ended May 31, 2000
Net loss to shareholders:	
As reported	$ (1,217,656)
Pro forma	$ (1,237,931)
Net loss per share:	
As reported	$ (0.06)
Pro forma	$ (0.06)

15. ACQUISITIONS

a. On August 1, 2000, the Company acquired certain assets from The Sta-Dri Company of Odenton, Maryland. In exchange, the Chief Executive Officer of the Company paid $72,000 and has given 750,000 shares of his registered common stock along with the Company's issuance of 250,000 shares of restricted common stock to the majority shareholder of The Sta-Dri Company ("Selling Shareholder"). In addition, the Company has issued 750,000 shares of restricted common stock to, and has entered into an agreement with the Chief Executive Officer to repay the $72,000. The total of 1,000,000 shares of the Company's common stock was valued at $137,000 based on the average trading price three days before and after the date of the acquisition was agreed to and announced, which was August 1, 2000.

As part of the terms to the acquisition, the Company has provided the Selling Shareholder with certain piggyback registration rights. Therefore, in the event that the Company shall register any shares of its common stock with in one year from August 1, 2000, the Company will register the 250,000 shares of restricted common stock issued in this acquisition along with the other shares in the registration statement.

Additionally, the Company has provided the Selling Shareholder 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 1, 2000 until August 12, 2002.

As of August 1, 2001 and until August 1, 2002, the Company will have to pay an additional $6,000 each month to the Selling Shareholder in the event that common stock of the Company has not traded above $1.00 per share for twenty consecutive trading days in each month. In the event that the common stock trades in excess of $1.00 per share for twenty consecutive days the $6,000 monthly obligation shall terminate.

The acquisition was recorded using the purchase method of accounting. The unaudited pro-forma results of operations of the Company and Sta-Dri, as if the acquisition occurred on June 1, 2000, have not been provided since they were not considered material to the financial statements.

b. On August 13, 1999, the Company acquired from The Sherwin Williams Company ("Sherwin") certain assets representing their Allied/Por-Rok business. Pursuant to the purchase agreement Novex (i) paid $800,000 to Sherwin, (ii) issued 1,000,000 shares of restricted common stock, valued at $260,000, to Sherwin with the requirement to register the common stock with the Securities and Exchange Commission and (iii) issued a note payable for $1,281,351, as adjusted from $1,300,000, which bears interest at 10% per annum and is payable over a one year period. In order, to induce Sherwin to accept the note payable, the Company had to convert all the previously issued debt to equity, except for the $250,000 debenture, which will be paid as a condition of the Allied/Por-Rok acquisition. At May 31, 2000, the outstanding balance on the debenture is $125,000 (see Note 11 (b)). Further, Sherwin has a subordinated security interest in substantially all the assets of the company.

Novex has entered into a $890,000 installment term note with Dime Commercial Corp. of which $800,000 was used for the purchase of Allied/Por Rok and the remaining $90,000 was used for working capital needs in fiscal 2000 (see Note 11(c)). This financing arrangement also provided for a $750,000 revolving note payable to fund future working capital requirements (see Note 10). The bank has a senior secured interest in substantially all the assets of Novex. In addition, the Company granted a class B warrant with a "put" right to purchase 233,365 shares of restricted common stock at an exercise price of $.25. Dime Commercial Corp. has the right to demand the purchase of the warrant if Novex completes a refinancing of all or a portion of the Dime term loan and/or revolving line of credit from funds provided by someone other than Dime. Therefore, Dime has the option of requesting payment in cash or waiving its right to sell the warrant to Novex. If Dime requests payment the amount they will receive is either (i) if the closing stock price is less than or equal to the exercise price, then Novex pays $58,341, which is the exercise price times the 233,365 shares underlying the warrant or (ii) if the closing price exceeds the exercise price, then Novex pays the closing price up to a

maximum of $.51 per share underlying the warrant or $119,016. Alternatively, if Dime decided to exercise the warrant, they can issue a 60-day non-interest bearing note for the entire amount due to Novex for the 233,365 shares of common stock underlying the warrant.

A total of $20,400 was originally allocated to the put warrant, resulting in a liability. (See Note 11 (c)). The fair value of the put warrant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: stock price of $.26 per share; annual dividend of $0; expected volatility of 50%; risk free interest rate of 6%; and an expected life of two years.

Goodwill of $571,245 resulted from these acquisitions and is determined as follows:

Assets acquired:	
Accounts receivable	$ 311,983
Inventory	225,661
Furniture and equipment	566,360
Building	415,000
Land	400,000
Total	1,919,004
Purchase price	2,341,351

	422,347
Acquisition costs	148,898
Goodwill	$ 571,245

The following schedule combines the unaudited pro-forma results of operations of the Company and Allied/Por-Rok, as if the acquisitions occurred on June 1, 1999 and includes such adjustments, which are directly attributable to the acquisition, including the amortization of goodwill. It should not be considered indicative of the results that would have been achieved had the acquisition not occurred or the results that would have been obtained had the acquisition actually occurred on June 1, 1999.

	Year Ended May 31, 2000
Net Sales	$ 2,231,742
Cost of sales	1,418,809
Gross profit	812,933
Operating expenses	1,665,736
Loss from operations	(852,803)
Net other expenses	(383,553)
Net loss	$ (1,236,356)
Net loss per share	$ (0.06)
Shares used in calculation	19,716,019

16. COMMITMENTS AND CONTINGENCY

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

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

Year Ending
May 31,

2002	$ 10,584
2003	7,830
2004	3,384
	$ 21,798

Total rental expenses for the years ended May 31, 2001 and 2000 was approximately $19,100 and $48,000, respectively.

b. The Company has a licensing agreement for certain concrete related products, including an admixture that is capable of enhancing the basic characteristic of cementitious products. The Company is obligated to pay royalties based on a percentage of sales, subject to an annual guaranteed minimum royalty. Currently, the Company has not had to pay royalties as the licensed products are still in the development stage and therefore have not been ready for sale to customers. Furthermore, the Company has had several discussions with the licensor who has agreed to defer the minimum royalty payments until the Novacrete Admixture product emerges from the research and development stage.

c. During fiscal 1997, a shareholder commenced an action against the Company and its former President to enjoin the Company and the former President from taking any action that would restrict the sale of common stock that he allegedly owns. In the opinion of management, this action is without merit and will not have a material adverse effect on the Company's financial position or results of operations.

17. SUBSEQUENT EVENTS

As of August 15, 2001, the Company has raised $153,000 from the sale of 1,020,000 shares of common stock. Included in the sale of common stock were warrants, which provide the right to purchase one share of common stock for every three shares of common stock purchased. The warrants have an exercise price of $0.20 per share and they expire three years from the date of issuance of the common stock.

On August 15, 2001, loans payable to shareholder of $42,868 was converted 285,786 shares of common stock.

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

Novex has engaged the certified public accounting firm of Feldman Sherb & Co., P.C. as its outside auditors to audit the company's annual financial statements for the fiscal year ending May 31, 2001 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, 2001.

Name	Age	Position

William K. Lavin	57	Chairman, Secretary
Daniel W. Dowe	39	Director, President and Chief Executive Officer
D. Friedenberg	49	Director, Treasurer
Edward J. Malloy	65	Director
Kevin DeMatteis	37	Director

* At the annual shareholders meeting held on April 29, 1999, Messrs. Friedenberg and Dowe were elected to serve as directors for a period of three years; Mr. Lavin for a period of two years and Mr. Malloy for one year.

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. From 1990 to 1993, Mr. Dowe was an associate with Donohue & Donohue, a New York City-based law firm concentrating on international trade matters. 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.

Douglas S. Friedenberg. Mr. Friedenberg has been a director of Novex since November, 1996 and is currently employed as a financial advisor with American High Growth Co. He has been the President of Firebird Capital Management, a financial advisory firm, since March, 1993. In 1991, he co-founded and became President of Unicorn Capital Management, an investment management firm. From 1983 to 1991, he managed private investment portfolios for Morgan Stanley, Inc., a large New York City-based investment banking firm. Mr. Friedenberg also serves as a Director of Datametrics Corporation (AMEX:DC).

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.

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, Friedenberg and Malloy (the "Compensation Committee") which had one meeting in each of the fiscal years ending May 31, 1998 and 1999. 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 inasmuch as its chief financial officer has recently left the company. As a result, Mr. Dowe is now handling all financial matters with certain bookkeeping and administrative duties being peformed 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, 2001, to all directors and officers:

Table 1

Summary Compensation Table

		Annual compensation				Long-Term Compensati Awards		Payo
Name and Princi-pal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restrict-ed Stock Awards (#)	Securi-ties Underly-ing Options SARs (#)	LTIP Payout ($)	All Othe Comp sati ($)
Daniel Dowe President (1)(2)	2001	$180,000						
	2000	$180,000						
	1999	$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 Form 10-KSB, 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;

(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.

32

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, 2001 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:

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)
Douglas Friedenberg, Director, Treasurer(3)	2,868,077	11.00%
Daniel W. Dowe Director, President, Chief Executive Officer(4)	3,445,658	13.00%

William K. Lavin Chairman, Secretary(5)	305,316	1.14%
Edward J. Malloy Director(6)	265,316	1.00%
	---------	-----
All Directors and Officers as a group	6,859,367	26.14%
	---------	-----

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

B. The class includes stock options and stock warrants granted to the directors and officers before May 31, 2001 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, 2001 there were 24,648,988 shares issued and outstanding and 26,757,777 on a fully diluted basis. Percentages are stated on a fully diluted basis.

C. Mr Friedenberg and various entities for which Mr. Friedenberg exercises sole voting and investment power as investment advisor presently hold an aggregate of 2,563,077 shares of common stock. Certain of the entities have the right to acquire beneficial ownership of an aggregate of 305,000 additional shares upon the exercise of 305,000 Class B warrants held by the

entities.

D. Mr. Dowe presently owns 2,869,734 shares of common stock and has the right to acquire beneficial ownership of 575,924 additional shares upon exercise of an equal number of common stock options.

E. Mr. Lavin presently owns 105,316 shares of common stock and has the right to acquire beneficial ownership of 200,000 additional shares upon exercise of an equal number of common stock options.

F. Mr. Malloy presently owns 65,316 shares of common stock and has the right to acquire beneficial ownership of 200,000 additional shares upon exercise of an equal number of common stock options.

Director Compensation

Except for Mr. Dowe, the three remaining directors receive $2,500 per quarter for services rendered as directors of Novex which is paid in restricted common stock based on the average bid and closing price of Novex's common stock on the last trading day for the months ending March, June, September and December. In addition, each non-employee director receives an additional $10,000 per annum, payable in equal quarterly installments if the director is a member of a committee of the board of directors that actually meets during the quarterly period. During the fiscal year 2000, there were no committee meetings.

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)
Parker Quillen c/o Quilcap Corporation 375 Park Avenue Suite 1404 New York, New York	4,091,569	15.29%

(1) As of May 31, 2001 there were 24,648,988 shares issued and outstanding and 26,757,777 on a fully diluted basis. Percentage is stated on a fully diluted basis.

Item 13. Certain Relationships and Related Transactions

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

34

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.

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.

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

(B) Exhibits to be incorporated herein by reference:

Exhibit No.	Description of Exhibit
2.1	Plan of Merger of Stratford Acquisition Corp. and the Registrant into the Registrant
3.1(i)	Articles of Incorporation of Stratford Acquisition Corp.
3.1(ii)	Certificate of Incorporation of the Registrant
3.1(iii)	New York Certificate of Merger of Stratford Acquisition Corp. into Registrant
3.1(iv)	Minnesota Certificate of Merger of Stratford Acquisition Corp. into Registrant
3.2	By-Laws
4.1	Specimen Common Stock Certificate
4.2	Form of Class B Warrants
4.3	Form of 10% $550,000 Convertible Debenture and Stock Warrant Agreement
4.4	Form of 9% $800,000 Convertible Debenture and Stock Warrant Agreement
4.5	Form of 15% $250,000 Senior Debenture and Stock Warrant Agreement
4.6	Term Sheets re Director Loans to Company dated July 29, 1998; August 13, 1998; August 20, 1998; August 27, 1998; September 4, 1998; and May 14, 1999
10.1	Employment Agreement between Registrant and Daniel W. Dowe
10.2	Amendment to Employment Agreement between Registrant and Daniel W. Dowe
10.3	Amended and Restated Purchase Agreement between The Sherwin-Williams Company and Registrant
10.4	Form of Promissory Note to Dime Commercial Corp.
10.5	Form of Promissory Note to The Sherwin-Williams Company
10.6	Bill of Sale from The Sherwin-Williams Company to Registrant
24.1	Power of Attorney (contained on signature pageof this Prospectus).
99.1	Battista Agreement
99.2	Supercrete N/A Limited Agreement dated December 20, 1996

(B) Exhibits filed herein:

21.1	Subsidiaries of Novex

SIGNATURES

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

NOVEX SYSTEMS INTERNATIONAL CORPORATION

By:

Daniel W. Dowe, President

By:

Douglas Friedenberg, Treasurer

Dated: August 29, 2001

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

		Dated
-- Daniel W. Dowe	Director	August 29, 2001
-- William K. Lavin	Director	August 29, 2001
-- Douglas Friedenberg	Director	August 29, 2001
-- Edward J. Malloy	Director	August 29, 2001
-- Keith DeMatteis	Director	August 29, 2001