NOVEX SYSTEMS INTERNATIONAL INC
Form 10QSB
April 23, 2003

FORM 10-QSB

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

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2003

or

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

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

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

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

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

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

The Company had 26,245,187 shares of its $.001 par value common stock and 1,758,839 shares of its $.001 par value preferred stock issued and outstanding on February 28, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

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

NOVEX SYSTEMS INTERNATIONAL, INC.

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PART I

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

The following discussion and analysis should be read in conjunction with the information contained in the Financial Statements and the Notes to the financial statements appearing elsewhere in this Form 10-QSB. The Financial Statements for the nine month period ended February 28, 2003, included in this Form 10-QSB are unaudited; however, this information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary to present a fair statement of the results for the interim period.

Results of Operations

Nine months ending February 28, 2003 vs. February 28, 2002

In the nine month period ended February 28, 2003, Novex had net sales of $971,246 versus $1,584,278 in the corresponding nine month period in 2002. The reduction in sales was attributable primarily to Novex's decision, effective February 1, 2003, to terminate its manufacturing business and license its trade names to a third-party that now pays Novex a royalty payment on sales of products using Novex's trade names. On February 1, 2003 and going forward Novex's gross revenue will no longer be derived from the sale of goods produced by Novex, but will consist of cash royalty payments that will no longer be offset by the cost to manufacture the goods.

Notwithstanding these changes, cost of goods sold in this period was $671,771, which generated a gross margin of 31%, versus 42% in 2002. Much of the reduction in gross margin was attributable to Novex having to incur some manufacturing costs during the past three months to transition the compnay into a licensing enterprise, but it did not have the gross sales to offset these expenses. Novex incurred general and administrative costs of $704,006, which resulted in a loss from operations of $404,531 in this period. In this period, Novex incurred $230,957 in interest expense, and $94,537 in charges derived from the write-off of costs incurred in a transaction to sell the company's real estate. The write-off was for $160,000, but in the three month period, Novex recorded on offsetting credit for the over-accrual of expenses incurred in its litigation with Dime Bank.

In the nine month period ending February 28, 2003, the company's operating loss before interest, taxes, depreciation and amortization (EBITDA) was $302,707 versus a loss of $16,052 in the same nine month period in 2002. Going forward, Novex anticipates that it could become profitable from its operations now that the company has eliminated all of its operating costs except for administration and sales support personnel, but would continue to experience losses due to the higher debt service charges that will continue to burden the company until this debt is retired or eliminated through a recapitalization. The decrease in gross sales during this period was due to a shift from a manufacturing entity to a licensing enterprise.

On November 30, 2002, Novex had $381,808 in current assets which consisted primarily of royalty license receivable of $111,722 and accounts receivable of $240,272. The company's property, plant and equipment was $1,173,564 net of accumulated depreciation of $266,115 and goodwill of $591,696 net of accumulated amortization of $166,011. Although Novex is required

to carry the value of its assets at the lower of cost or market value, during the period that Novex was evaluating the sale of its business its had received offers up to $1,100,000 to purchase all its intellectual property which is stated in the goodwill section of the company's balance sheet. Accordingly, Novex believes that his has an additional $508,305 in unstated value in its intellectual property, which if it could be recorded would increase its good will from $591,695 to $1,100,000.

Much along the same lines as the market value for Novex's intellectual property, Novex at the advice of its real estate broker has listed its real property for sale at the asking price of $1,450,000 and as of the date of this filing has a signed term sheet to sell the property for $1,380,000. Novex carries the real estate in the section Property, Plant and Equipment at the depreciated value of $770,829. Assuming the sale of the real property will close at the term sheet price, Novex will have a gain of $609,171. In addition to the term sheet that is outstanding, Novex has received a second offer for $1,350,000 and therefore believes that the best measure of value for its real property is in range of $1,380,000. Had Novex been allowed to value it assets at market value, its total assets would increase from $2,147,067 to $3,264,543.

Three months ending February 28, 2003 vs. February 28, 2002

In the three month period ended February 28, 2003, Novex had net sales of $110,948 versus $404,722 in the corresponding three month period in 2002. The decrease in sales was attributable to Novex having converted from a manufacturing company to a licensing company. Had Novex shipped all the outstanding customer orders that it had at the time it terminating its operation it would have had sales of approximately $400,000 for the three month period. Cost of goods sold in this period was $72,605 which generated a gross margin of 35%, versus 37% in 2002. Going forward Novex will no longer record gross profitability, because its royalty revenue will not be offset by a cost to manufacture goods. Novex incurred general and administrative costs of $173,450, which will also be significantly lower in future period due to the company's termination of its manufacturing business. In this period the loss from operations was $135,107. Novex also incurred $73,914 in interest expense and had an offsetting credit of $65,547 against financing charges due to the anticipated reduction of legal fees that Novex will be required to pay its former lender. For the three month period the company's operating loss before interest, taxes, depreciation and amortization (EBITDA) was $101,153.

Effective February 1, 2003 Novex entered into an exclusive licensing agreement with C.G.M. Incorporated ("CGM"). CGM is a Pennsylvania-based manufacturer of construction chemicals and products for over 37 years, and will be producing, shipping and invoicing customers for sales of product using Novex's trade names. CGM will be paying royalties to Novex on a monthly basis that shall be based on the previous month's sales and a pre-determined percentage of each sale. The average anticipated monthly royalty will be 20% of net sales, which is defined in the agreement as the gross amount of the invoice, less any out-going freight to ship the order, rebate allowances, payment discounts and damaged goods. Novex will continue to take orders from its customers

and provide additional marketing services in conjunction with CGM to increase sales of products sold under Novex's trade names, which in return will increase the monthly royalty payments to Novex.

Novex has closed its plant and terminated all its employee except for two persons that will continue to handle customers and accounting functions, respectively and Novex's president that will continue to be responsible for sales and marketing, interfacing with CGM and seeking additional acquisitions of businesses and product lines that would be compatible with the distribution channels that Novex's currently serves. Novex has listed for sale its real property located in Clifton, New Jersey at a price of $1,450,000. Novex had anticipating that the court that is overseeing the litigation with Novex's former bank, Dime Commercial Corp., will issue a final ruling on the matter by February 15, 2003, however due to a continuing dispute over the amount of legal fees that should be reimbursed to Dime the court has delayed its ruling. Dime is claiming that approximately $1,250,000 is owed to them and Novex has asked the court to rule that only $1,050,000 is due and owing. In either event, Novex believes that its real property will be sold for sufficient value to enable Novex to pay the full amount of the final judgment, which will terminate the litigation and enable Novex to focus on the development of its business.

Liquidity and Financial Resources at February 28, 2003

As of November 30, 2002, Novex had $3,999,336 in current liabilities. Of this amount, $414,268 was the balance on Novex's secured revolving line of credit with Dime Commercial Corp. which was used to fund the Company's operations and a term loan of $704,667 outstanding with Dime and $1,061,000 in bridge loans outstanding to a shareholder and director. Novex has also received advances of $325,000 that were related to a proposed sale and leaseback transaction with its real property that was terminated in October, 2002. It had accounts payable of $586,279, unpaid tax obligations of $352,439 and a loan from a shareholder of $137,449. As of this filing, Novex has entered into a non-binding term sheet and is in contract negotiations to sell its real property for $1,380,000, and will use the proceeds to pay-off the debts owed to Dime and other liabilities.

On December 21, 2000, Novex obtained from a private investor a six-month secured bridge loan in the amount of $600,000 ("Bridge Note") which has been extended by the investor to provide the company additional time to improve its sales and secure take-out financing on terms that are mutually beneficial to the company and the new investor(s). The Bridge Note holder owns approximately 4% of the company's common stock and is equally concerned with excessive dilution. The bridge loan bears interest at a rate of 10% per annum. In exchange for the bridge financing, Novex issued 600,000 shares of its common stock to the investor. The Bridge Note is secured by the same assets as, and is subordinated to, the Dime Note (discussed below). During the period February 21, 2001, through October 4, 2001, the same private investor made three additional bridge loans of $311,000 for which he received 286,000 shares of common stock as of November 30, 2001 and another 25,000 shares of common stock as of December 31, 2001. The terms of the additional bridge loans are identical to those of the original Bridge Note. He also

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made an equity investment of $50,000 on January 21, 2001 for which he received 625,000 shares of Novex' common stock. For agreeing to forbear from entering into the foreclosure lawsuit that was commenced against Novex by Dime, the bridge loan holder agree to forfeit 625,000 shares of common stock in exchange for a forbearance fee of $50,000, which was added to the principal amount of the notes outstanding.

The current portion of the long-term debt consists of the $1,061,000 owed to the Bridge Note holder, the advance of $325,000 on the real estate transaction that was not completed and a three year term loan totaling $704,667 (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 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.

Effective March 1, 2002, Dime had terminated its funding on the two notes and has commenced collections actions to secure repayment of the two loans. At the time the loans were called the principal and interest payments were current, however, Dime had cited covenant defaults in its demand letter to Novex. Novex reached an agreement in principle to sell and leaseback its real property for $1,200,000 however the transaction did not close, although the investors advanced Novex $325,000 as partial payments on the purchase of the property.

Due in part from the collapse of the sale and leaseback transaction, the overdue maturity of its bank notes which matured on August 13, 2002 and Novex's inability to secure the capital needed to achieve the growth objectives in its business plan, the company's board of directors announced in a Form 8-KSB filing with the Securities and Exchange Commission in November 2002 that it had determined to sell Novex's business operation. It was anticipated that Novex would use the cash proceeds to pay off its debt obligations, retain any excess proceeds in the company and seek to merge its public entity with a privately-held operating business that could utilize Novex's $8 million net operating loss carryforward and its public status. To that end, in December, 2002, Novex undertook a sale of substantially all of its assets through an auction process. Although a number of bids were submitted to the company, none were acceptable as of the date of this filing. In the interim, on January 31, 2003, Novex entered into a licensing agreement with C.G.M., Inc. of Bensalem, Pennsylvania, to market and distribute Novex's Por-Rok, Dash Patch and Sta-Dri products in exchange for a royalty payment of approximately 20% of the net invoice value to the customer. (See Item 6 below.)

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 3. Controls and Procedures

(A) Evaluation of Disclosure Controls and Procedures

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

(B) Changes in Internal Controls

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

Part II Other Information

Item 1. Legal Proceedings

In March, 2002, Dime Commercial Corp. Commenced a legal action against Novex to secure payment on the two outstanding notes and a separate action to seek foreclosure on the real property in an attempt to force the company to pay-off the notes in a reasonable time period. Since the filing of the actions, the court in the legal proceeding for payment on the notes provided Novex with injunctive relief whereby Novex could retain payments from customers on account and use a new bank account to fund its operations until the litigation is resolved. Dime has received a judgment in foreclosure against Novex's real property, which Novex currently has on the market for sale now that its production facility is no longer needed due to Novex having entered into a licensing agreement whereby all Novex`s products are produced by a third-party. In a separate action commenced by Dime to seek repayment of its notes through a foreclosure sale against Novex's non-real estate assets, the court has ruled in favor of Dime as to the amount of principal and interest owed by Novex, which Novex never disputed, but has not yet issued a final ruling on the total sum owed to Dime due to a dispute between the parties regarding Dime's claim for legal

fees that Novex and the court believed were unreasonable and unnecessary. The court has admonished Dime on several occasions about its unreasonable and excessive approach to the litigation against Novex and has stated on the court record that it would not award Dime its full claim for legal fees when the court renders its final decision. In anticipation that Dime would receive a final award from the court that the two loans to Novex are due and outstanding Novex, through its president, has initiated discussions with representatives of the general counsel's office of the parent company of Dime Bank, Washington Mutual Inc., to address an orderly sale of Novex's real estate assets, the proceeds of which will be used primarily to pay the final judgment awarded to Dime and retire other outstanding debts. Based solely on the opinion of Novex's president, it appears that, Washington Mutual, would be receptive to allowing Novex to sell its real property, which is being actively marketed for sale at the asking price of $1,450,000, to pay Dime its final judgment that is estimated to be in the range of $1,150,000.

Due to the termination of Novex's business, other vendors have commenced lawsuits against the company to seek repayment of outstanding obligations. Novex has submitted a detailed letter to all litigant's that it will begin to address other claims subsequent to the completion of litigation with Dime. Novex's is planning to continue its business under the licensing agreement and use excess cash from its royalty revenues to pay down debt, while it seeks to recapitalize the company in conjunction with a future merger or acquisition opportunity that may or may not be in the same industry. Novex pursues new business development opportunities on a continuous basis, but as of the date of this filing, it has not entered into any agreement to acquire a business, or merge with another entity.

Item 2. Changes in Securities. None

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

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

Item 5. Other Information. None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

The following exhibits are filed as part of or incorporated by reference into this Report:

Exhibit	Description
99.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (4)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of

1934, Novex Systems International Incorporated has duly caused this report to be signed on its behalf by the undersigned person who is duly authorized to sign on behalf of the Registrant and as chief accounting officer.

NOVEX SYSTEMS INTERNATIONAL, INC.

By: /s/ Daniel W. Dowe

Daniel W. Dowe
President and Chief Executive Officer

Date: April 20, 2003

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Novex Systems International, Inc. ("the Company") on Form 10-QSB for the nine month period ended February 28, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel W. Dowe, the President and Acting Treasurer of the Company, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, certify that:

(A) I have reviewed this quarterly report on Form 10-QSB of the Company;

(B) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(C) Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

(D) As the registrant's certifying officer I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and;

c) presented in this quarterly report are conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(E) As the registrant's certifying officer, I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which

could adversely affect the registrant's ability, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(F) As the registrant's certifying officer, I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Daniel W. Dowe

Daniel W. Dowe
President and Chief Executive Officer

Date: April 20, 2003

NOVEX SYSTEMS INTERNATIONAL, INC.

BALANCE SHEET
February 28, 2003

ASSETS

CURRENT ASSETS:	
Accounts receivable, net of allowance for doubtful accounts of $77,338	$ 240,272
Royalty/Licensee receivable	111,722
Prepaid expenses	29,814
Total Current Assets	381,808
PROPERTY, PLANT AND EQUIPMENT -at cost, net	1,173,564
GOODWILL - at cost, net	591,695
	$ 2,147,067

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

CURRENT LIABILITIES:	
Cash overdraft	$ 13,804
Current portion of long term debt	2,090,667
Bank line of credit	414,018
Accounts payable	566,279
Loans payable - shareholder	137,449
Accrued expenses and other current liabilities	299,678
Accrued payroll taxes	352,439
Notes Payable	125,001
Total Current Liabilities	3,999,335
COMMITMENTS AND CONTINGENCY	
SHAREHOLDERS' DEFICIENCY:	
Preferred stock - $0.001 par value, 10,000,000 shares authorized, 1,758,839 shares issued and outstanding (liquidation value $1,758,839)	1,758,839
Common stock - $0.001 par value, 50,000,000 shares authorized 26,245,187 shares issued and outstanding	26,245
Additional paid-in capital	6,413,267
Accumulated deficit	(10,050,619)
Total shareholders' deficiency	(1,852,269)
	$ 2,147,067

See notes to financial statements.

NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS

	Three Months Ended February 28, 2003	2002	Nine Mo 20
	(Unaudited)	(Unaudited)	(Unau
NET SALES	$ 110,948	$ 404,722	$ 9
COST OF GOODS SOLD	72,605	254,305	6
GROSS PROFIT	38,343	150,417	2
SELLING, GENERAL AND ADMINISTRATIVE	173,450	190,813	7
LOSS FROM OPERATIONS	(135,107)	(40,396)	(4
OTHER INCOME(EXPENSES):			
Interest expense	114,539	(63,491)	(2
Amortization or debt discount	0	(3,941)	
Write off of costs related to financing	(65,547)	0	(
(Loss) gain on change in valuation of put warrant	0	6,310	
OTHER EXPENSES, net	48,992	(61,122)	(3
LOSS FROM OPERATIONS	(184,099)	(101,518)	(7
Less: Preferred stock dividend	38,235	38,235	1
NET LOSS TO COMMON SHAREHOLDERS	$ (222,334)	$ (139,753)	$ (8
TOTAL LOSS PER COMMON SHARE, basic and diluted	$ (0.01)	$ (0.01)	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted	26,557,687	26,523,667	26,7

See notes to financial statements.

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NOVEX SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

Nine Months End

	2003
CASH FLOWS FROM OPERATING ACTIVITIES:	(Unaudited)
Net loss	$(770,650)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for bad debts	--
Depreciation and amortization	101,824
Loss (gain) on change in valuation of put warrant	--
Common stock issued for services	--
Amortization of debt discount	--
Changes in assets and liabilities, net of the effect from acquisition:	
Accounts receivable	145,946
Royalty/Licensee receivable	(111,722)
Inventories	156,284
Prepaid and other current assets	113,663
Accounts payable	184,919
Accrued expenses and other current liabilities	65,307
Accrued payroll taxes	118,458
Purchase of equipment	(6,938)
NET CASH USED IN OPERATING ACTIVITIES	(2,909)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash overdraft	13,804
(Repayment of) proceeds from loans payable - shareholders	(15,222)
(Repayment of) proceeds from bank line of credit	(135,928)
Proceeds from debt financing	125,001
Repayment of debt obligations	--
Proceeds from notes payable	--
Proceeds from the sale of common stock & options	--
Repurchase of common stock	(9,375)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(21,720)
NET INCREASE(DECREASE) IN CASH	(24,629)
CASH AT BEGINNING OF YEAR	24,629
CASH AT END OF PERIOD	$ --
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid during the period for:	
Interest	$ 230,957
Income taxes	$ 0
Non-cash flow and investing and financing activities:	
Conversion of debt to equity	$ 22,364
Common stock issued for assets acquired	$ 0
Common stock issued for future services	
Preferred stock dividend	$ 114,705

See notes to financial statements.

NOVEX SYSTEMS INTERNATIONAL, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED FEBRUARY 28, 2003
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited condensed financial statements of Novex Systems International, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results for expected for the nine months ended February 28, 2003 are not necessarily indicative of the results that may be expected for the year ending May 31, 2003. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended May 31, 2002. Per share data for the periods are based upon the weighted average number of shares of common stock outstanding during such periods, plus net additional shares issued upon exercise of options and warrants.

Note 2. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered from recurring losses from operations, including a net loss to common shareholders of $885,355 for the nine months ended February 28, 2003, and has a negative working capital and shareholder deficiency as of February 28, 2003. The Company is also in default of its bank lines of credit and in arrears with paying payroll taxes. These factors raise substantial doubt as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Note 3. WRITE OFF OF FINANCE COSTS

During fiscal 2002, the Company recorded $160,000 of Deferred Expense related to a proposed sale-leaseback of its property. Effective October 23, 2002 the deal was terminated and these expenses were written off.

Note 4. SALE OF ASSETS

In December 2002, Novex undertook a sale of substantially all of its assets through an auction process. As of this filing, a number of bids have been submitted to the company but none were deemed acceptable offers.

On January 31, 2003, Novex entered into a licensing agreement, until December 2004, with C.G.M., Inc. of Ben Salem, Pennsylvania to market and distribute Novex's Por-Rok, Dash Patch and Sta-Dri products in exchange for monthly royalty payments ranging from 15% to 25% of the net invoice value to the customer. In addition the Licensee shall purchase at cost the inventory on hand from the Company payable in three installments through March 15, 2003. The Licensee has the right to terminate the agreement within 180 days from the commencement date of the agreement. In the event the Licensee elects to terminate this licensing agreement, the Company shall be obligated to purchase all inventory that cannot be used by the License due to the termination of the licensing agreement. Licensor reserves the right to terminate the licensing agreement for the following reasons; failure to ship a minimum of $375,000 of merchandise in two consecutive quarters, Licensee having become subject to a 50% change in control, Licensee becoming subject to involuntary or voluntary bankruptcy.

Note 5. DEBT and EQUITY TRANSACTIONS

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

In December 2002, a noteholder signed an agreement to forbear from pursuing any claims against Novex to seek repayment of outstanding principal and interest due on promissory notes purchased from Novex. In consideration for signing the agreement, Novex agreed to pay the noteholder $50,000 on the additional condition that the noteholder tender to Novex for cancellation, 625,000 shares of Novex's $.001 par value common stock it is holding. The $50,000 payment was allocated $40,625 to interest expense and $9,375 to the repurchase of the common stock.

Note 6. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 141, "Business Combination", SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interest method of accounting for business combinations initiated after June 30, 2001. It also requires that the Company recognize acquired intangible assets apart from goodwill. SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost, which will be effective for financial statements issued for fiscal years beginning after June 15, 2002.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which basically further clarifies SFAS No. 121 and methods of quantifying potential impairments or disposal of assets as well as the related reporting of such impairments or disposals.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This SFAS applies to costs associated with an "exit activity" that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144. These costs include, but are not limited to the following: termination benefits

associated with involuntary terminations, terminating contracts that are not capital leases and costs to consolidate facilities or relocate employees. SFAS No. 146 will be effective for exit or disposal activities initiated after December 31, 2002 with early application encouraged.

During 2002, the FASB issued SFAS No. 145, 147 and 148, which were merely amendments to existing SFAS's or other accounting pronouncements.

The adoption of SFAS No. 141, SFAS No. 142, SFAS No. 143, SFAS No. 144 and SFAS No. 146 is not expected to have a material effect on the Company's financial position, results of operations and cash flows