NEW VISUAL CORP
Form 10-Q
September 14, 2001

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2001

COMMISSION FILE NUMBER 0-21785

NEW VISUAL CORPORATION
(Exact name of registrant as specified in its charter)

UTAH (State or other jurisdiction of incorporation or organization)	95-4543704 (I.R.S. employer identification no.)
5920 FRIARS ROAD, SUITE 104 SAN DIEGO, CALIFORNIA 92108 (Address of principal executive offices, including zip code)	(619) 692-0333 (Registrant's telephone number, including area code)

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 Exchange 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 such filing requirements for the past 90 days.

Yes [X] No [ ]

The number of shares of the issuer's Common Stock, par value $.001 per share, outstanding as of September 13, 2001 was 28,044,129.

TABLE OF CONTENTS

PAGE

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION.

ITEM 1. FINANCIAL STATEMENTS.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED BALANCE SHEETS

ASSETS

	October 31, 2000	July 20
		(Unau
Current Assets:		
Cash	$ 189,234	$ 2
Receivable from related parties	27,563	1
Other current assets	30,227	
Total Current Assets	247,024	4
Property and equipment - net of accumulated depreciation	393,787	3
Other assets	117,200	1
Film and video library	35,944	
Projects under development	638,707	1,4
Total Assets	$ 1,432,662	$ 2,3

LIABILITIES AND STOCKHOLDERS' EQUITY

	October 31, 2000	July 20
Current Liabilities:		
Accounts payable and accrued expenses	$ 446,921	$ 6
Total Current Liabilities	446,921	6

Long-term debt	756,886	2
Total Liabilities	1,203,807	9
Commitments, Contingencies and Other Matters (Notes 2, 6, 7, 8 and 9)		
Stockholders' Equity:		
Preferred stock - $0.01 par value; 15,000,000 shares authorized; Series A junior participating preferred stock; -0- shares issued and outstanding	-	
Common stock - $0.001 par value; 100,000,000 shares authorized; 24,072,455 and 27,107,331 shares issued and outstanding at October 31, 2000 and July 31, 2001, respectively	24,072	
Additional paid-in capital	27,813,465	36,2
Unearned financing fees	(2,583,333)	(1,8
Accumulated deficit at October 31, 1999	(12,300,033)	(12,3
Deficit accumulated during the development stage	(12,725,316)	(20,7
Total Stockholders' Equity	228,855	1,4
Total Liabilities and Stockholders' Equity	$ 1,432,662	$ 2,3

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	For the Nine Months Ended July 31,		For the Novembe
	2000	2001	J
REVENUES	$ 7,700	$ -	$
OPERATING EXPENSES:			
Cost of sales	-	-	
Amortization of costs of projects	51,242	-	
Projects costs written off	10,844	-	
Depreciation of property and equipment	63,610	97,842	
Acquired in-process research and development expenses	6,050,000	-	
Compensatory element of stock issuances	2,468,428	2,410,194	
Research and development	362,906	1,190,348	
Selling, general and administrative expenses	1,200,746	2,565,393	

TOTAL OPERATING EXPENSES	10,207,776	6,263,777	1
OPERATING LOSS	(10,200,076)	(6,263,777)	(1
OTHER EXPENSES:			
Interest expense	3,806	27,179	
Amortization of unearned financing costs	166,667	750,000	
Litigation settlement in shares of common stock (Note 7)	-	1,000,000	
TOTAL OTHER EXPENSES	170,473	1,777,179	
NET LOSS	$(10,370,549)	$ (8,040,956)	$(2
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.50)	$ (0.32)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	20,700,263	25,153,198	

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended July 31,	
	2000	2001
REVENUES	$ 900	$ -
OPERATING EXPENSES:		
Cost of sales	-	-
Amortization costs of projects	15,507	-
Depreciation of property and equipment	29,068	28,029
Acquired in-process research and development	-	-
Compensatory element of stock issuances	619,650	2,410,194
Research and development	182,697	528,254
Selling, general and administrative expenses	547,781	1,428,553
TOTAL OPERATING EXPENSES	1,394,703	4,395,030
OPERATING LOSS	(1,393,803)	(4,395,030)

OTHER EXPENSES:		
Interest expense	3,806	8,749
Amortization of unearned financing costs	166,667	250,000
TOTAL OTHER EXPENSES	170,473	258,749
NET LOSS	$ (1,564,276)	$ (4,653,779)
BASIC AND DILUTED LOSS PER SHARE	$ (0.07)	$ (0.18)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	22,028,085	26,230,086

See notes to consolidated financial statements.

3

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE NINE MONTHS ENDED JULY 31, 2000 AND 2001

	Common Stock		Additiona Paid-i
	Shares	Amount	Capita
		(1)	
Balance - October 31, 1999	17,224,049	$ 17,224	$12,197,374
Issuance of common stock for cash ($1.00 to $4.00 per share)	805,994	805	2,733,583
Issuance of common stock for services:			
($1.00 to $1.40 per share for quarter ended January 31)	29,765	30	34,020
($1.20 to $12.00 per share for quarter ended April 30)	1,161,065	1,161	1,813,568
($3.00 to $7.88 per share for quarter ended July 31)	109,000	109	619,541
($.25 to $12.50 per share for quarter ended October 31)	84,084	84	28,038
Acquisition of Impact Pictures, Inc. ($4.00 per share)	12,500	13	49,987
Acquisition of New Wheel Technology, Inc. ($2.00 per share)	3,000,000	3,000	5,997,000
Issuance of common stock under consulting agreement ($2.00 per share)	1,500,000	1,500	2,998,500
Issuances of common stock upon exercise of warrants ($2.40 per share)	68,750	69	164,931
Issuance of common stock in connection with private placement ($5.00 to $5.50 per share)	77,248	77	414,923

Value assigned to issuance of 200,000 warrants	-	-	762,000
Amortization of unearned financing costs	-	-	-
Net loss	-	-	-
Balance - October 31, 2000	24,072,455	$ 24,072	$27,813,465

(1) Share amounts have been restated to reflect the 1-for-4 reverse stock split effected on June 22, 2000.

See notes to consolidated financial statements.

4

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE NINE MONTHS ENDED JULY 31, 2000 AND 2001

	Unearned Financing Costs	Accumulated Deficit	St
Balance - October 31, 1999	$ -	$(12,300,033)	$
Issuance of common stock for cash			
($1.00 to $4.00 per share)	-	-	
Issuance of common stock for services:			
($1.00 to $1.40 per share at January 31)	-	-	
($1.20 to $12.00 per share at April 30)	-	-	
($3.00 to $7.88 per share at July 31)	-	-	
($.25 to $12.50 per share at October 31)	-	-	
Acquisition of Impact Pictures, Inc.			
($4.00 per share)	-	-	
Acquisition of New Wheel Technology, Inc.			
($2.00 per share)	-	-	
Issuance of common stock under consulting			
agreement ($2.00 per share)	(3,000,000)	-	
Issuances of common stock upon exercise of warrants			
($2.40 per share)	-	-	
Issuance of common stock in connection with private			
placement ($5.50 per share)	-	-	
Value assigned to issuance of 200,000 warrants	-	-	
Amortization of unearned financing costs	416,667	-	
Net loss	-	(12,725,316)	(
Balance - October 31, 2000	$ (2,583,333)	$(25,025,349)	$

Accumulated deficit as of October 31, 1999	$(12,300,033)

Accumulated deficit during development stage (year ended October 31, 2000)	(12,725,316)
Total Accumulated Deficit as of October 31, 2000	$(25,025,349)

See notes to consolidated financial statements.

5

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE NINE MONTHS ENDED JULY 31, 2000 AND 2001

	Common Stock		Additio Paid Capi
	Shares	Amount	
Balance - October 31, 1999	17,224,049	$ 17,224	$ 12,197,3
Issuance of common stock for cash ($1.00 to $4.00 per share)	770,994	771	2,593,6
Issuance of common stock for services:			
($1.00 to $1.40 per share at January 31)	29,765	30	34,0
($1.20 to $12.00 per share at April 30)	1,161,065	1,161	1,813,5
($3.00 to $7.88 per share at July 31)	109,000	109	619,5
Acquisition of Impact Pictures, Inc. ($4.00 per share)	12,500	12	49,9
Acquisition of New Wheel Technology, Inc. ($2.00 per share)	3,000,000	3,000	5,997,0
Issuance of common stock under consulting agreement ($2.00 per share)	1,500,000	1,500	2,998,5
Issuances of stock for exercise of warrants ($2.40 per share)	68,750	69	164,9
Amortization of unearned financing costs	-	-	
Net loss	-	-	
Balance - July 31, 2000	23,876,123	$ 23,876	$ 26,468,5

	Unearned Financing Costs	Accumulated Deficit	To Stockholde Equ
Balance - October 31, 1999	$ -	$(12,300,033)	$ (85,4
Issuance of common stock for cash ($1.00 to $4.00 per share)	-	-	2,594,3
Issuance of common stock for services:			

($1.00 to $1.40 per share at January 31)	-	-	34,0
($1.20 to $12.00 per share at April 30)	-	-	1,814,7
($3.00 to $7.88 per share at July 31)	-	-	619,6
Acquisition of Impact Pictures, Inc. ($4.00 per share)	-	-	50,0
Acquisition of New Wheel Technology, Inc. ($2.00 per share)	-	-	6,000,0
Issuance of common stock under consulting agreement ($2.00 per share)	(3,000,000)	-	
Issuances of stock for exercise of warrants ($2.40 per share)	-	-	165,0
Amortization of unearned financing costs	166,667	-	166,6
Net loss	-	(10,370,549)	(10,370,5
Balance - July 31, 2000	$ (2,833,333)	$(22,670,582)	$ 988,5

See notes to consolidated financial statements.

6

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE NINE MONTHS ENDED JULY 31, 2001

	Common Stock		Addi P C
	Shares	Amount (1)	
Nine Months Ended July 31, 2001:			
Balance - October 31, 2000	24,072,455	$ 24,072	$ 27,81
Issuance of common stock for cash ($2.68 to $5.00 per share)	240,904	241	70
Issuance of common stock with attached warrants ($4.02 per share for quarter ended January 31)	174,714	175	48
Issuance of common stock with attached warrants ($5.10 per share for quarter ended January 31)	30,600	31	8
Issuance of common stock with attached warrants ($2.80 to $5.10 per share for quarter ended April 30)	104,571	105	29
Issuance of common stock in connection with Private Placement ($4.35 to $5.50 per share for quarter ended January 31)	32,445	32	15
Issuance of common stock in connection with Private Placement($2.60 to $3.37 per share			

for quarter ended April 30)	207,307	207	61
Issuance of common stock in connection with Private Placement ($1.74 to $2.80 per share for quarter ended July 31)	1,446,355	1,446	2,74
Issuance of common stock in connection with litigation settlement	250,000	250	99
Issuance of stock to Vice-Chairperson of Board of Directors for services ($1.8984 per share at June 11)	500,000	500	94
Issuance of stock under consulting agreement ($2.90 to $3.90 per share at July 31)	50,960	51	17
Value assigned to warrants issued to consultants at July 31	-	-	1,28
Cancellation of common stock issued for cash	(2,980)	(3)	(2
Amortization of unearned financing costs	-	-	
Net loss	-	-	
Balance - July 31, 2001	27,107,331	$ 27,107	$ 36,27

(1) Share amounts have been restated to reflect the 1-for-4 reverse stock split effected on June 22, 2000.

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE SIX MONTHS ENDED APRIL 30, 2000 AND 2001

	Unearned Financing Costs	Accumulated Deficit	Stockh
Nine Months Ended July 31, 2001:			
Balance - October 31, 2000	$ (2,583,333)	$(25,025,349)	$ 2
Issuance of common stock for cash ($2.68 to $5.00 per share)	-	-	7
Issuance of common stock with attached warrants ($4.02 per share for quarter ended January 31)	-	-	4
Issuance of common stock with attached warrants ($5.10 per share for quarter ended January 31)	-	-	
Issuance of common stock with attached warrants ($2.80 to $5.10 per share for quarter ended April 30)	-	-	2
Issuance of common stock in connection with			

Private Placement ($4.35 to $5.50 per share for quarter ended January 31)	-	-	1
Issuance of common stock in connection with Private Placement ($2.60 to 3.37 per share for quarter ended April 30)	-	-	6
Issuance of common stock in connection with Private Placement ($1.74 to $2.80 per share for quarter ended July 31)	-	-	2,7
Issuance of common stock in connection with litigation settlement	-	-	1,0
Issuance of stock to Vice Chairperson of Board of Directors for services ($1.8984 per share at May 31)	-	-	9
Issuance of stock under consulting agreement ($2.90 to $3.90 per share at July 31)	-	-	1
Value assigned to warrants issued to consultant at July 31	-	-	1,2
Cancellation of common stock issued for cash	-	-	(
Amortization of unearned financing costs	750,000	-	7
Net loss	-	(8,040,956)	(8,0
Balance - July 31, 2001	$ (1,833,333)	$(33,066,305)	$ 1,4

Accumulated deficit as of October 31, 2000	$(12,300,033)
Accumulated deficit during development stage (November 1, 1999 to July 31, 2001)	(20,766,272)
Total accumulated deficit as of July 31, 2001	$(33,066,305)

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO JULY 31, 2001 AND
THE NINE MONTHS ENDED JULY 31, 2000 AND 2001

	For the Nine Months Ende July 31	
	2000	200
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(10,370,549)	$ (8,040,956
Adjustments to reconcile net loss to net cash used in operating activities:		
Compensatory elements of stock issuances	2,468,428	2,410,194

Stock issued for acquired in-process research and development	6,050,000	-
Stock issued for litigation settlement	-	1,000,000
Projects costs written-off	10,884	-
Amortization of unearned financing costs	166,667	750,000
Depreciation of property and equipment	63,610	97,842
Amortization of costs of projects	51,242	-
Increase (decrease) from changes in:		
Prepaid expenses and other current assets	(11,244)	(36,796
Other assets	(4,091)	(20,933
Due from related parties	18,722	(100,198
Projects under development	(488,901)	(788,000
Accounts payable and accrued expenses	(290,252)	252,557
NET CASH USED IN OPERATING ACTIVITIES	(2,335,484)	(4,476,290
CASH USED IN INVESTING ACTIVITIES		
Capital expenditures	(253,007)	(17,303
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	2,594,388	5,058,133
Proceeds from note payable	529,000	-
Repayment of note payable	-	(500,000
Proceeds from exercise of warrants	165,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,288,388	4,558,133
INCREASE IN CASH	699,897	64,540
CASH AND CASH EQUIVALENTS - BEGINNING	62,872	189,234
CASH AND CASH EQUIVALENTS - ENDING	$ 762,769	$ 253,774
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements are unaudited. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to state fairly the Company's financial position and results of operations as of and for the periods indicated. These financial statements should be read in conjunction with the Company's financial statements and notes thereto for the year ended October 31, 2000, included in the Company's annual report on Form 10-KSB as filed with the SEC.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of New Visual Corporation ("NVC") and its operating subsidiaries, NV Entertainment, Inc. ("NV"), Impact Multimedia, Inc. ("IP") and NV Technology, Inc. (formerly, New Wheel Technology, Inc.) ("New Wheel") (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated.

DESCRIPTION OF BUSINESS

The Company was incorporated under the laws of the State of Utah on December 5, 1985. Prior to June 29, 2001, the Company's name was New Visual Entertainment, Inc.

In November of 1999, the Company began to focus its business activities on the development of new content telecommunications technologies. Pursuant to such plan, the Company acquired New Wheel Technology, Inc., a development stage, California-based, technology company in February of 2000 (Note 2). As a result of the change in business focus, the Company became a development stage entity commencing November 1, 1999. The Company also produces and distributes 2-D and 3-D filmed entertainment.

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risks, are principally trade accounts receivable. The Company maintains an allowance for uncollectible accounts receivable and generally does not require collateral. At July 31, 2001 and October 31, 2000, no allowance for uncollectible accounts was deemed necessary by management.

(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

The Company considers all short-term highly liquid investments with a maturity of three months or less when purchased to be cash or cash equivalents.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed on a straight-line method over the estimated useful lives of the assets, which generally range from five to seven years. Maintenance and repair expenses are charged to operations as incurred.

FILM AND VIDEO LIBRARY AND PROJECTS UNDER DEVELOPMENT

Film and video library and projects under development are stated at the lower of amortized cost or market. Upon completion, costs are amortized on an individual production basis in the proportion that current gross revenues bear to management's estimate of total gross revenues, with such estimates being reviewed at least quarterly. In prior years, several projects under development were determined to have no estimated realizable value and were accordingly written-off. Project costs written-off during the nine months ended July 31, 2000 and 2001, were $10,884 and $-0-, respectively. For the nine months ended July 31, 2000 and 2001, amortization expense related to the film and video library was $62,086 and $-0-, respectively.

INCOME TAXES

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109). SFAS No. 109 employs an asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred income taxes of a change in tax rates is recognized as income in the period that includes the enactment date.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial statements include various estimated fair value information at July 31, 2001, as required by Statement of Financial Accounting Standards No.107, "Disclosures about Fair Value of Financial Instruments." Such information, which pertains to the Company's financial instruments, is based on the requirements set forth in that Statement and does not purport to represent the aggregate net fair value to the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short-term maturity of those instruments.

Receivables and Payables: The carrying amounts approximate fair value because of the short maturity of those instruments.

All of the Company's financial instruments are held for purposes other than trading.

REVENUE RECOGNITION

Substantially all revenues are derived from the production of multimedia content, videos and commercial films. Revenue is recognized over the shorter of the license term or the expected revenue term.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to expense as incurred. Amounts allocated to acquired-in-process research and development costs from business combinations are charged to earnings at the consummation of the acquisition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADVERTISING

Advertising costs are charged to operations when incurred. Advertising expense for the nine months ended July 31, 2000 and 2001 was $67,833 and $942, respectively.

LOSS PER SHARE

Basic earnings per share ("Basic EPS") is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") gives effect to all dilutive potential common shares outstanding during a period. In computing diluted EPS, the treasury stock method is used in determining the number of shares assumed to be purchased from the conversion of common stock equivalents.

REVERSE STOCK SPLITS

On October 18, 1995, the Company approved a one-for-two reverse split of its issued and outstanding common stock. On June 22, 2000, the Company effected a one-for-four reverse split of its issued and outstanding common stock. The accompanying consolidated financial statements, notes and other references to share and per share data have been retroactively restated to reflect the reverse stock splits for all periods presented.

STOCK-BASED COMPENSATION

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for its stock-based compensation arrangements pursuant to APB Opinion No. 25, "Accounting for Stock Issued to Employees." In accordance with the provisions of SFAS No. 123, the Company discloses the pro forma effects of accounting for these arrangements using the Black Scholes option-pricing model to determine fair value.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the total amount of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SEGMENT REPORTING

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way public enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. Adoption of SFAS No. 131 did not have a material effect on the Company's financial position or results of operations.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS NO.133), which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments -- Deferral of the Effective Date of SFAS Statement No.133 and in June 2000, the FASB issued SFAS No.138, Accounting for Certain Derivative Instruments -- an amendment of SFAS No.133, Accounting for Derivative Instruments and Hedging Activities. As a result of SFAS No. 137, SFAS No. 133 and SFAS No. 138 will be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company's adoption of the above Financial Accounting Standards had no material impact on the Company's financial statements for the nine months ended July 31, 2001.

In June 2000, the American Institute of Certified Public Accountants issued Statement of Position 00-2, Accounting by Producers or Distributors of Films (SOP 00-2), which established new accounting standards for producers and distributors of film and supersedes Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films." SOP 00-2 changes the accounting standards for costs to produce and distribute film and television properties. The Company expects to adopt the new standard effective November 1, 2001, and is evaluating the effect that such adoption may have on its consolidated results of operations and financial position.

In June 2000, the Financial Accounting Standards Board issued SFAS No. 139 which rescinds SFAS No. 53 and requires public companies to follow the guidance provided by SOP 00-2.

(UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No.25. FIN 44 clarifies the application of Opinion 25 for (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The Company adopted FIN 44 effective July 1, 2000. The adoption of the provisions of FIN 44 did not have a material effect on the financial position or results of operations of the Company.

COMPREHENSIVE INCOME

The Company has no material components of other comprehensive income and, accordingly, net loss approximates comprehensive loss for all periods presented.

NOTE 2 - ACQUISITIONS

IMPACT PICTURES, INC.

In January 2000, the Company completed the acquisition of 100% of the common stock of Impact Pictures, Inc. ("Impact"), a small development-stage San Diego-based multi-media production firm, for 12,500 shares of the Company's common stock, valued at $50,000. The Company has accounted for this acquisition under the purchase method of accounting. As of the acquisition date, Impact had no tangible assets and its intangible assets were in the development stage. Accordingly, the $50,000 was charged to operations, under the caption "Acquired in-process research and development expenses," during the nine months ended July 31, 2000.

Historical and proforma information have not been provided because the operations of the acquired business were not material.

15

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 2 - ACQUISITIONS (CONTINUED)

NEW WHEEL TECHNOLOGY, INC.

In February 2000, the Company completed the acquisition of New Wheel Technology, Inc. ("New Wheel"), a development-stage California-based technology company. New Wheel was merged with the Company's Astounding Acquisition Corp. subsidiary, which changed its name to New Wheel Technology, Inc. On July 13, 2001, New Wheel changed its name to NV Technology, Inc. An aggregate of 3,000,000 restricted shares of common stock were issued to the New Wheel stockholders in consideration of the merger. Also, additional compensation would be paid to the New Wheel stockholders if New Wheel's high speed digital transmission technology generates revenues for the Company in excess of $1 billion, or if there is a sale of assets or stock, or a merger of New Visual or any of its affiliates, in which the New Wheel technology comprises at least 15% of the consideration. As of April 30, 2000, the Company recorded the issuance of the full 3,000,000 shares, which were valued at $6,000,000. The Company has accounted for this acquisition under the purchase method of accounting. As of the acquisition date, New Wheel had no tangible assets and its intangible assets were in the development stage. Accordingly, the $6,000,000 was charged to operations under the caption "Acquired in-process research and development expenses," during the nine months ended July 31, 2000.

Historical and proforma information have not been provided because the operations of the acquired business were not material.

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	October 31, 2000	July 31, 2001
Furniture and fixtures	$ 51,584	$ 55,151
Camera equipment	544,664	544,664
Office equipment	99,658	113,394
	695,906	713,209
Less: Accumulated depreciation	302,119	399,961
Total	$393,787	$313,248

For the nine months ended July 31, 2000 and 2001, depreciation expense was $63,610 and $97,842, respectively.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	October 31, 2000	July 31, 2001
Professional fees	$ 300,000	$ 319,891
Payroll and related taxes	47,511	-
Interest	17,906	45,350
Miscellaneous	81,504	334,238
	$ 446,921	$ 699,479

NOTE 5 - LONG-TERM DEBT

On June 29, 2000, the Company entered into five credit agreements, each of which granted the Company a credit facility of up to $300,000. As of October 31, 2000, the Company had borrowed $756,886 under these facilities, payable on June 29, 2003 in one payment, together with all accrued and unpaid interest at 6% per annum.

On November 13, 2000, the above five credit agreements were amended, reducing the Company's credit facility to $756,886 in aggregate. The credit agreements terminate on June 29, 2003 and all accrued interest and unpaid interest, along with the principal, is due in full on June 29, 2003.

During July 2001, the Company repaid $500,000 under the above five credit agreements.

NOTE 6 - STOCKHOLDERS' EQUITY

PREFERRED STOCK AND RIGHTS DIVIDEND

Effective June 22, 2000, the Company amended its articles of incorporation to decrease the number of authorized shares of preferred stock from 200,000,000 to 15,000,000 and to decrease the par value of the preferred stock from $30.00 to $0.01 per share.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

PREFERRED STOCK AND RIGHTS DIVIDEND (CONTINUED)

The Company adopted a shareholder rights plan, in which one right was distributed on August 21, 2000 as a dividend on each outstanding share of common stock to shareholders of record on that date. Each right will entitle the shareholders to purchase 1/1000th of a share of a new series of junior participating preferred stock of the Company at an exercise price of $200 per right. The rights will be exercisable only if another person acquires or announces its intention to acquire beneficial ownership of 20% or more of the Company's common stock. After any such acquisition or announcement, the Company's shareholders, other than the acquirer, could then exercise each right they hold to purchase the Company's common stock at a 50% discount from the market price. In addition, if, after another person becomes an acquiring person, the Company is involved in a merger or other business combination in which it is not the surviving corporation, each right will entitle its holder to purchase a number of shares of common stock of the acquiring company having a market value equal to twice the exercise price of the right. Prior to the acquisition by a person or group of beneficial ownership of 20% or more of the Company's common stock, at the option of the Board of Directors, the rights are redeemable for $0.001 per right. The rights will expire on August 21, 2004.

On July 27, 2000, the Company created a series of preferred stock, par value $0.01 per share, designated as "Series A Junior Participating Preferred Stock." The number of shares constituting the Series A Junior Participating Preferred Stock is 200,000, initially reserved for issuance upon exercise of the rights discussed in Note 6. Subject to the rights of the holders of any shares of any series of preferred stock ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of common stock, shall be entitled to receive, when, as and if declared by the Board of Directors, quarterly dividends payable in cash on the last day of each quarter in each year, commencing on the first quarterly dividend payment date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share equal to the greater of $1.00 or 1,000 times the aggregate per share amount of all cash and non-cash dividends or other distributions, other than a dividend payable in shares of common stock. Each share of Series A Preferred Stock shall entitle the holder to 1,000 votes. Upon any liquidation, no distribution shall be made to the holders of shares of stock ranking junior to the Series A Preferred Stock, unless the holders of shares of Series A Preferred Stock shall have received $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon. The shares of Series A Preferred Stock shall not be redeemable.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK

On April 30, 2000, the Board of Directors authorized, and on May 31, 2000, a majority vote of the shareholders approved, a one-for-four reverse stock-split of the Company's outstanding common stock. The reverse stock-split was effected on June 22, 2000.

COMMON STOCK ISSUANCES DURING THE YEAR ENDED OCTOBER 31, 2000

During the year ended October 31, 2000, the Company issued 805,994 shares of restricted common stock to investors for cash proceeds of $2,734,388, as indicated below. Such sales were sold in private transactions in reliance on various exemptions from the registration requirements of the Securities Act.

During the three months ended January 31, 2000, the Company sold 177,463 shares of common stock for $211,909.

During the quarter ended April 30, 2000, the Company sold 278,699 shares of common stock for $1,318,079.

During the quarter ended July 31, 2000, the Company sold 314,832 shares of common stock for $1,064,400.

During the quarter ended October 31, 2000, the Company sold 35,000 shares of common stock for $140,000.

During the three months ended January 31, 2000, the Company issued 29,765 shares of common stock between $1.00 and $1.40 for consulting services totaling $34,050.

During the three months ended January 31, 2000, the Company issued 12,500 shares of common stock valued at $4.00 per share for the acquisition of Impact Pictures, Inc. (Note 2)

On February 17, 2000, the Company issued 3,000,000 shares of common stock valued at $2.00 per share for the acquisition of New Wheel Technology, Inc. (Note 2)

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK ISSUANCES DURING THE YEAR ENDED OCTOBER 31, 2000 (CONTINUED)

In connection with the acquisition of New Wheel, the Company entered into an agreement with lenders to provide loans of up to $1.5 million. As consideration for these loans and other services under the agreement, in April of 2000 the Company issued 1,500,000 shares of its common stock to the lenders valued at $3,000,000. The Company accounted for the $3,000,000 as unearned financing costs as a reduction of stockholders' equity as of April 30, 2000. During the quarter ended July 31, 2000, the Company began to draw money down from the credit facilities and accordingly, the Company at such time, began to amortize the unearned financing costs over the three-year period ended June of 2003. Amortization of the unearned financing costs for the nine months ended July 31, 2001 was $750,000.

During the quarter ended April 30, 2000, the Company issued 1,161,065 shares of common stock between $1.20 and $12.00 for consulting and professional services totaling $1,814,729.

During the quarter ended July 31, 2000, the Company issued 109,000 shares of common stock between $3.00 and $7.88 for consulting and professional services totaling $619,650.

On June 12, 2000, 68,750 warrants were exercised at $2.40 per share totaling $165,000.

During the quarter ended October 31, 2000, the Company issued 84,084 shares of common stock between $.25 and $12.50 for consulting services, totaling $28,122.

On October 31, 2000, the Company issued 77,248 shares of common stock between $5.00 and $5.50 per share pursuant to the Company's November 17, 2000 private placement agreement.

COMMON STOCK ISSUANCES DURING THE NINE MONTHS ENDED JULY 31, 2001

- Private Placement:

On November 17, 2000, and as amended on January 22, 2001, the Company entered into a private placement agreement with various investors, to sell $5,000,000 of the Company's common stock in several tranches at a purchase price equal to 87% of the average market price of the Company's common stock over the five days preceding the closing of each drawdown.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK ISSUANCES DURING THE NINE MONTHS ENDED JULY 31, 2001 (CONTINUED)

- Private Placement: (Continued)

The Company can sell stock to the investors in 5-day intervals not to exceed $500,000 per sale. The investor may refuse to purchase the stock in the event the average purchase price is below $2.00 per share, or if the trading volume is below a certain number of shares within the period, or if the Company sells capital stock in excess of $5,000,000, but exclusive of any funding for the production project.

The Company may not apply any portion of the drawdowns towards payment of any costs related to its production of the Company's pending motion picture project. This agreement terminates on November 17, 2002.

In addition, the investors received warrants to purchase 4,000,000 shares of common stock to be issued in two series (3,000,000 Series A warrants and 1,000,000 Series B warrants). Each Series A warrant can be exercised at a price per share equal to the lesser of $6.00 or 50% of the average of the closing sales price of the Company's common stock over the five consecutive trading days immediately preceding the date of the exercise of the warrants. Each Series B warrant can be exercised at a price per share of $6.00. The Series B warrants have a cashless exercise provision. The Series A and Series B warrants expire on November 17, 2003.

As of July 31, 2001, the Company has received proceeds under this agreement of $3,930,454 from the investors in consideration for the purchase of 1,736,355 shares of the Company's common stock. The following are common stock issuances for the nine months ended July 31, 2001, pursuant to the Company's November 17, 2001 Private Placement Agreement.

o On November 17, 2000, the Company issued 9,456 shares of common stock for $5.50 per share.

o On November 27, 2000, the Company issued 22,989 shares of common stock for $4.35 per share.

o On March 13, 2001, the Company issued 29,639 shares of common stock for $3.37 per share.

o On March 27, 2001, the Company issued 62,661 shares of common stock for $3.19 per share.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK ISSUANCES DURING THE NINE MONTHS ENDED JULY 31, 2001 (CONTINUED)

- Private Placement: (Continued)

- On April 6, 2001, the Company issued 57,773 shares of common stock for $2.60 per share.
- On April 11, 2001, the Company issued 33,287 shares of common stock for $3.00 per share.
- On April 25, 2001, the Company issued 23,947 shares of common stock for $2.92 per share.
- On May 1, 2001, the Company issued 14,288 shares of common stock for approximately $2.80 per share.
- On May 2, 2001, the Company issued 34,600 shares of common stock for approximately $2.75 per share.
- On May 6, 2001, the Company issued 23,674 shares of common stock for approximately $2.75 per share.
- On May 13, 2001, the Company issued 22,105 shares of common stock for approximately $2.71 per share.
- On May 29, 2001, the Company issued 120,728 shares of common stock for approximately $2.48 per share.
- On May 31, 2001, the Company issued 41,375 shares of common stock for approximately $2.42 per share.
- On June 12, 2001, the Company issued 63,011 shares of common stock for approximately $1.95 per share.
- On June 7-13, 2001, the Company issued 785,000 shares of common stock for approximately $1.74 per share.
- On July 20, 2001, the Company issued 341,574 shares of common stock for approximately $1.74 per share.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK ISSUANCES DURING THE NINE MONTHS ENDED JULY 31, 2001 (CONTINUED)

- Other

During December 2000, the Company sold 219,904 shares of common stock for $600,000.

In February of 2001, the Company issued 250,000 shares of common stock valued at $1,000,000 for the litigation settlement agreement with Astounding.com, Inc. and Jack Robinson (Note 7). This settlement has been recorded during the three months ended January 31, 2001.

During January 2001, the Company issued 30,600 shares of common stock with 15,300 attached warrants with an exercise price of $5.10 per share, expiring in 3 years for $85,680.

During January 2001, the Company issued 174,714 shares of common stock with 87,357 attached warrants with an exercise price of $4.02 per share, expiring in 3 years for $489,199.

During January 2001, the Company sold 21,000 shares of common stock for $105,000.

In April of 2001, the Company cancelled 2,980 shares for which the Company was to receive $30,001. The shares issued were recorded by the Company but never issued to the investor.

In March of 2001, the Company issued 46,250 shares of common stock with 23,125 attached warrants with an exercise price of $5.10 per share, expiring in 3 years for $129,500.

During April 2001, the Company issued 58,321 shares of common stock with 29,161 attached warrants with an exercise price of $5.10 per share expiring in 3 years for $163,300.

In May of 2001, the Company issued 500,000 shares to its Board of Director's Vice Chairperson for past services, which were valued at approximately $1.89 per share.

During the quarter ended July 31, 2001, the Company issued 50,960 shares of common stock between $2.90 and $3.90 per share for consulting services, totaling $171,744.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTION PLANS

- 2000 Omnibus Securities Plan:

During April 2000, the Board of Directors adopted, and subsequently on May 31, 2000, the shareholders of the Company approved, the 2000 Omnibus Securities Plan. The 2000 Omnibus Securities Plan authorizes the granting of stock options and restricted stock awards. The 2000 Omnibus Securities Plan may be administered by the Board of Directors or a committee appointed by the Board. A total of 2,500,000 shares of common stock are reserved for issuance under the 2000 Omnibus Securities Plan. Options granted under the option plan may be either (i) options intended to constitute incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or any corresponding provisions of succeeding law (the "Code"), or (ii) non-qualified stock options.

The exercise price for each stock option is determined by the Board. Incentive stock options must have an exercise price of at least 100% (or at least 110% in the case of incentive stock options granted to certain employees owning more than 10% of the outstanding voting stock) of the fair market value of the common stock on the date the stock option is granted. Under the 2000 Omnibus Securities Plan, fair market value of the common stock for a particular date will generally be the closing sale price for the stock if the common stock is listed on an established stock exchange. If the common stock is not listed on an established stock exchange on a particular date, the fair market value of the common stock will be the average of the closing bid and asked prices per share for the stock as quoted by The NASDAQ SmallCap market or on the OTC Bulletin Board of the National Association of Securities Dealers or in the NQB Pink Sheets published by the National Quotation Bureau Incorporated.

No stock option may be exercised after the expiration of ten years from the date of grant (or five years in the case of incentive stock options granted to certain employees owning more than 10% of the outstanding voting stock). Pursuant to the 2000 Omnibus Securities Plan, the aggregate fair market value of the common stock for which one or more incentive stock options granted to any participant may, for the first time, become exercisable as incentive stock options under the federal tax laws during any one calendar year shall not exceed $100,000.

As of July 31, 2001, the Company granted Non-Qualified Stock options under this plan to purchase a total of 516,000 common shares at exercise prices ranging from $3.92 to $4.00 per share. The options are exercisable over a ten-year period.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTIONS

- Options Outside of the Plan:

As of October 31, 2000, the Company granted options outside the Plan to purchase a total of 1,563,750 common shares at exercise prices ranging from $1.00 to $5.50 per share.

On November 13, 2000, the Company granted to a consultant options to acquire 100,000 shares of its common stock. The exercise price for the options is $4.00 per share. All options became vested immediately and expire on November 13, 2010. In addition, the consultant is additionally compensated for each day of service up to $1,300 per day. The consulting agreement may be terminated at any time by either party upon thirty days' written notice to the other party.

On May 15, 2001, the Company granted an advisory board member options to acquire 50,000 shares of its common stock. The exercise price for the options is $3.92 per share. All options became exercisable immediately and expire on May 15, 2011.

On June 7, 2001, the Company granted options to purchase 50,000 shares of its common stock to an advisory board member. The exercise price is $2.30 per share, with 25,000 vesting and exercisable immediately and the remaining 25,000 vesting and exercisable equally on the anniversary date over the next three years. All options expire on June 7, 2011.

Since the exercise price of the options was not less than the fair market value of the Company's common stock on each date of grant, no compensation expense has been recorded. If the Company had elected to record the issuance of stock options using the fair value method, the Company's net loss and loss per share would be as follows:

	Nine Months Ended July 31, 2001
Net Loss:	
As reported	$ 8,040,956
Proforma	$(8,355,956)
Loss Per Share:	
As reported	$ (0.32)
Proforma	$ (0.33)

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTIONS (CONTINUED)

- Options Outside of the Plan: (Continued)

The fair value of stock options granted during the nine months ended July 31, 2001 was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value and related assumptions were as follows:

	February 11, 2000	July 1, 2000	October 27, 2000	November 2
Expected volatility	33.0%	33.0%	33.0%	33
Risk-free interest rate	5.5%	5.5%	5.5%	5
Expected lives	3 years	3 years	3 years	3 ye
Dividend yield	-0-	-0-	-0-	

A summary of the Company's stock option activity and related information follows:

	In the Plan Stock Options	Weighted Average Exercise Price	Outside t Stock
Outstanding - October 31, 2000	-	$ -	1,5
Options granted - 11/01 - 07/31/01:			
In the plan	516,000	3.93	
Options granted - 11/01 - 07/31/01:			
Outside the option plan	-	-	2
Outside expired/cancelled:			
In the plan	3,750	3.94	
Outstanding - July 31, 2001	512,250	$3.94	1,7
Exercisable at July 31:			
2001	276,188	$3.96	1,0
2002	354,876	$3.95	1,3
2003	433,564	$3.94	1,7
2004	512,250	$3.94	1,7

The exercise price for options outstanding as of July 31, 2001 ranged from $1.00 to $5.50.

26

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

NET LOSS PER SHARE

Securities that could potentially dilute basic earnings per share ("EPS") in the future that were not included in the computation of diluted EPS because to do so would have been anti-dilutive for the periods presented consist of the following:

Warrants to purchase common stock	5,557,600
Options to purchase common stock	2,276,000
Total as of July 31, 2001	7,833,600

Substantial issuances after July 31, 2001 through September 14, 2001:

Options granted outside Plans	50,000
Warrants granted in connection with consulting agreement	100,000
Options granted in connection with 2001 stock incentive plan	750,000
Sale of common stock for cash	188,633

NOTE 7 - COMMITMENTS AND CONTINGENCIES

ASTOUNDING.COM, INC.

In September 1999, the Company entered into a merger agreement with Astounding.com, Inc. The merger agreement provided for the Company to issue 10,000,000 (pre-June 22, 2000 reverse split) shares of its common stock for all of the outstanding shares of Astounding. The closing of the merger was subject to various conditions including the receipt of a debt or equity financing of at least $1,000,000 and requisite shareholders approval.

During the three months ended January 31, 2000, the Company terminated its previously announced merger with Astounding.com, Inc. because certain conditions had not been satisfied.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

ASTOUNDING.COM, INC. (CONTINUED)

On March 22, 2000, the Company filed a lawsuit in the State District Court in Dallas, Texas against Astounding.com, Inc. and Jack Robinson. The Company's complaint alleged that, among other things, Astounding.com, Inc. and Robinson breached certain contractual obligations to New Visual and engaged in negligent and/or fraudulent misrepresentation to induce New Visual to enter into the merger agreement. New Visual sought a court order confirming that the merger agreement was null and void, and an award of unspecified damages, court costs and attorneys fees. Robinson and Astounding.com filed a counterclaim against New Visual alleging breach of contract and unjust enrichment and seeking unspecified damages, court costs and attorney fees. This litigation was settled in February 2001.

Pursuant to the settlement agreement, the Company issued to Jack D. Robinson and his attorneys 250,000 restricted shares of its common stock, valued at $1,000,000. The Company in return received all the issued and outstanding common stock of Astounding.com, Inc. The Company also agreed to file a registration statement for these 250,000 shares of its common stock by March 31, 2001 and to cause the registration statement to become effective and the shares to become freely tradable no later than June 29, 2001. This settlement was recorded during the three months ended January 31, 2001.

As of February 16, 2001, Astounding .com, Inc. had no liabilities and was engaged in no business activities.

INTELECON SERVICES, INC.

On March 31, 2000, the Company signed a definitive merger agreement to acquire Intelecon Services, Inc. ("Intelecon"), a provider of entertainment and business communication technology and value-added services, in a stock transaction.

On September 26, 2000, the Company formally terminated its merger agreement with Intelecon.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

INTELECON SERVICES, INC. (CONTINUED)

The Company advanced to Intelecon monies to purchase certain equipment on behalf of the Company. Intelecon did not purchase the equipment and, therefore, breached its contract and was unjustly enriched. The Company brought a claim against Intelecon for $105,000.

During April 2001, the Company reached a settlement with Intelecon for $117,000, payable in the amount of $15,000 per month, until $117,000 has been paid in full. As of July 31, 2001, the Company has received $35,000 under this settlement.

CONSULTING AGREEMENTS

In June 2000, the Company entered into a marketing and public relations agreement to publicize the Company to brokers, prospective investors, institutional investors, analysts and others, for a term of six months. In consideration of the above services, the Company has paid the consultant $50,000.

In addition, the consultant was issued 50,000 shares of the Company's common stock. The consultant was also issued a warrant entitling it to purchase, in the aggregate, up to 200,000 shares of the Company's common stock. The warrant is divided into four tranches of fifty thousand (50,000) shares each, with each tranche to have the following exercise prices: Tranche 1 - $7.00 per share; Tranche 2 - $8.50 per share; Tranche 3 - $10.00 per share; and Tranche 4 - $11.50 per share. The consultant and the Company entered into a registration rights agreement with respect to the registration of the above common stock and Warrant Shares. The consultant has not exercised any of these warrants as of April 30, 2001.

The warrants were assigned a value of $762,000, which was charged to operations during the year ended October 31, 2000.

In March 2001, the Company entered into a consulting agreement with a company for developing a new corporate positioning strategy and identifying an enhanced brand platform. The Company agreed to pay $10,000 prior to the consulting company commencing work, $7,500 upon delivery of the first stage and $7,500 upon fulfillment of the contract.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONSULTING AGREEMENTS (CONTINUED)

During March 2001, the Company entered into a consulting agreement with a company to provide financial advice and to arrange for equity investments or other funding. The company will pay for such services by providing the consultant with fees equal to (i) 5% of the gross amount of any cash financing obtained for the Company, payable in cash; (ii) a number of shares of stock equal to 10% of the stock issued in connection with any financing obtained for the Company; and (iii) a number of warrants equal to 10% of the warrants issued in connection with any financing obtained for the Company. The term of this agreement is six months. Under the above terms, the Company granted warrants to purchase 100,000 shares of common stock at an exercise price from $2.50 per share to $10.00 per share. The exercise period is five years. The fair market value of the stock warrants are estimated on the date of grant using the Black-Scholes option-pricing model ranging from $.70 to $1.41.

In April 2001, the Company entered into a consulting agreement with a company for a comprehensive level of international communications services. The Company agreed to pay minimums of $15,000 per month plus related hard costs for services and expenses. During May 2001, the Company and the consulting company mutually agreed to cancel the above agreement.

In May 2001, the Company entered into a one-year consulting agreement with a company for providing consulting and advisory services in connection with strategic business planning and related matters. The Company agreed to grant warrants to purchase 500,000 shares of common stock at an exercise price of $2.50 per share, 250,000 shares of common stock at an exercise price of $5.00 per share, and 250,000 shares of common stock at an exercise price at $10.00 per share. The exercise period is five years. The fair value of stock warrants are estimated on the date of grant using the Black-Scholes option-pricing model ranging from $.32 to $1.73.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

EMPLOYMENT AGREEMENTS

On February 11, 2000, the Company entered into an employment agreement with its current Chief Executive Officer. The agreement, effective April 1, 2000, is a three-year employment contract that provides for base compensation in the first contract year of $250,000; in the second contract year, base compensation of $300,000; and in the third year and during any renewal term, base compensation of $350,000. The employee is also entitled to an annual bonus based upon his performance, which will be at the sole discretion of the Board of Directors. The annual bonus to the CEO shall be payable in cash or in an amount of shares of the Company's common stock that equals the amount of the bonus based upon the market price of the employer's common stock on the date that the bonus is paid.

In connection with its New Wheel acquisition, in February 2000, the Company entered into two employment agreements for executive services. The agreements provide for the Company to pay base salaries of $208,000 each per annum and a bonus of $12,500 each upon the execution of the agreement. The agreements were to expire in September 2000, but have been extended through February 2001. The above agreement was subsequently not renewed (Note 9).

On June 20, 2000, the Company entered into a three-year employment agreement with its Executive Vice President commencing July 1, 2000, whereby the Executive Vice President shall receive a base salary of $15,000 per year and options to purchase 210,000 shares of common stock at $4.40 per share. Of these stock options, 35,000 vested on July 1, 2000, and the balance vests straight-line on the last day of each quarter beginning September 30, 2000 and ending December 31, 2002, or 17,500 per quarter. The options expire on July 1, 2005.

JOINT VENTURE PRODUCTION AGREEMENT

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film for theatrical distribution. The Company will provide the funding for the production in the amount of $2,250,000 and, in exchange, will receive a 50% share in all net profits from worldwide distribution and merchandising, after receiving funds equal to its initial investment of up to $2,250,000. The film is to be completed and ready for a Summer 2002 release. The Company has agreed to deposit into a separate account, on a monthly basis, funds to assure a minimum balance of $200,000 at the beginning of each month, until the total of $2,250,000 has been deposited into the account. As of July 31, 2001, the Company has funded approximately $1,373,000 of production and other costs, which was included in projects under development in the accompanying consolidated balance sheet.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEASES

On January 3, 2000, the Company entered into an operating lease for office space in San Diego, California. The lease commenced on February 1, 2000 and expires in January 2005. The lease provides for a minimum annual rental of approximately $54,000, with a 3% annual increase each year, starting on February 1, 2001 and each year thereafter.

On May 4, 2001, the Company terminated an operating lease for office space in Livermore, California, which commenced on March 1, 2000. Meanwhile, the Company entered into an operating lease for office space in Pleasanton, California. The lease commenced on June 1, 2001 and expires on May 31, 2004. The lease provides for a minimum annual rental at approximately $120,000 for the first year and $156,000 the following years. During August 2001, the Company closed its office in Pleasanton, along with other proactive measures to re-organize its technology development efforts, and is currently in negotiation to sublease a portion of this space.

Rent expense for the nine months ended July 31, 2000 and 2001 was $48,353 and $80,581, respectively.

ROYALTY PAYMENTS

The Company's projects under development stipulate royalty payments which are based on percentages of revenue.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. At July 31, 2001, the Company had a bank balance in excess of federally insured limits by approximately $126,200.

NOTE 8 - BUSINESS RISKS AND SEGMENT INFORMATION

The Company operates in two business segments, the production of motion pictures, films and videos (entertainment segment) and development of new content telecommunications technologies (telecommunication segment). The success of the Company's entertainment business is dependent on future revenues from the Company's current joint venture production agreement to produce a feature-length film for theatrical distribution.

The success of the Company's telecommunication segment is dependent upon the successful completion of development and testing of its New Wheel technology. No assurances can be given that the Company can complete development of such technology, or that with respect to such technology that is fully developed, it can be commercialized on a large scale basis or at a feasible cost. No assurance can be given that such technology will receive market acceptance.

Until the commencement of sales from either segment, the Company will have no operating revenues, but will continue to incur substantial operating expenses, capitalized costs and operating losses.

The Company funded its operations during the nine months ended July 31, 2001 through sales of its common stock, resulting in net proceeds to the Company of $5,058,133. Sales of common stock during the nine months ended July 31, 2001 were sold in private transactions in reliance on various exemptions from the registration requirements of the Securities Act. The Company is exploring other financing alternatives, including private placements and public offerings.

Under an agreement which was concluded in November of 2000, the Company has obtained an equity line of credit of up to $5 million to fund its telecommunication segment. The equity line has various limits on amounts of drawdowns and, under certain circumstances, the purchaser may not be obligated to purchase stock offered for sale by the Company (Note 6).

(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 8 - BUSINESS RISKS AND SEGMENT INFORMATION (CONTINUED)

Summarized financial information concerning the Company's reportable segments is shown in the following table:

For the Nine Months Ended July 31, 2001:

	Telecommunication Business	Entertainment Business	Unalloca Expen
Net Sales	$ -	$ -	$
Operating Loss	$(1,190,348)	$ -	$(6,850,6
Depreciation and Amortization	$ 760,526	$ 12,910	$ 74,4
Total Identifiable Assets	$ 95,390	$ 1,590,651	$ 676,5

For the nine months ended July 31, 2000, the Company's only reportable segment consisted of the entertainment business.

NOTE 9 - SUBSEQUENT EVENTS

COMMON STOCK

During August 2001, the Company received approximately $141,500 for the issuance of 188,633 shares of common stock to investors.

PROMISSORY NOTE RECEIVABLE

On September 6, 2001, the Company converted advances of $99,656 to an officer to a promissory note payable on demand at a rate of seven percent per annum. The balance on July 31, 2001 was approximately $92,500, which is included in receivables from related parties.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 9 - SUBSEQUENT EVENTS (CONTINUED)

EMPLOYEE TERMINATIONS/OFFICE CLOSING

On August 3, 2001, the Company terminated the employment of the six employees located at its office in Pleasanton, California, including the Company's former chief operating officer and chief technology officer. The Company made $25,807 in severance payments in connection with the termination of employees other than the former officers.

2001 STOCK INCENTIVE PLAN

During August 2001, the Board of Directors adopted the 2001 Stock Incentive Plan. The 2001 Stock Incentive Plan authorized the granting of stock options, restricted, unrestricted and performance stock awards, dividend equivalent rights and stock appreciation rights. The 2001 Stock Incentive Plan may be administered by the Board of Directors or a committee appointed by the Board. A total of 2,500,000 shares of common stock are reserved for issuance under the 2001 Stock Incentive Plan. Options granted under the option plan may be either (i) options intended to constitute incentive stock options under Section 422 of the Code, or (ii) non-qualified stock options.

The exercise price for each stock option is determined by the Board. Incentive stock options must have an exercise price of at least 100% (or at least 110% in the case of incentive stock options granted to certain employees owning more than 10% of the outstanding voting stock) of the fair market value of the common stock on the date the stock option is granted.

No stock option may be exercised after the expiration of ten years from the date of grant (or five years in the case of incentive stock options granted to certain employees owning more than 10% of the outstanding voting stock). Pursuant to the 2001 Stock Incentive Plan, the aggregate fair market value of the common stock for which one or more incentive stock options granted to any participant may, for the first time, become exercisable as incentive stock options under the federal tax laws during any one calendar year shall not exceed $100,000.

35

NEW VISUAL CORPORATION AND SUBSIDIARIES
(FORMERLY NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES)
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 9 - SUBSEQUENT EVENTS (CONTINUED)

STOCK OPTIONS

On August 3, 2001, the Company granted options to purchase 50,000 shares of its common stock to an advisory board member. The exercise price is $1.07 per share with 25,000 vesting and exercisable immediately and the remaining 25,000 vesting and exercisable equally on the anniversary date over the next three years. All options expire on August 3, 2011.

On August 30, 2001, the Company granted non-qualified stock options under its 2001 Stock Incentive Plan to purchase 750,000 shares of common stock to a consultant for advice regarding the Company's business strategy, organization, business prospects and growth initiatives. The exercise price will be 80% of the market price for the common stock on the date the optionee elects to exercise its options. All options expire on August 30, 2006.

CONSULTING AGREEMENT

On August 3, 2001, the Company entered into a consulting agreement to collaborate with the Company's engineering consultants to expedite the design and commercialization efforts of the Company's broad-band transmission technology over telephone wire. In consideration of the above services, the Company has paid the consultant $50,000. The term of this agreement is four months with the option to renew for consecutive one-month terms.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our results of operations and should be read in conjunction with the financial statements and related notes contained in this Form 10-Q.

RESULTS OF OPERATIONS

For the Nine Months Ended July 31, 2001 vs. the Nine Months Ended July 31, 2000

REVENUES. Revenues for the nine months ended July 31, 2001 were $-0-. Revenues for the nine months ended July 31, 2000 were $7,700.

OPERATING EXPENSES. Operating expenses include amortization of project costs, writedown of project costs, depreciation of property and equipment, compensatory element of stock issuances, acquired in-process research and development expenses, research and development expenses, and selling, general and administrative costs. Total operating expenses decreased to $6,263,777 for the nine months ended July 31, 2001, from $10,207,776 for the nine months ended July 31, 2000. The decrease was primarily related to the effect of acquired in-process research and development costs for the nine months ended July 31, 2000 in the amount of $6,050,000. There were increases in research and development costs and selling, general and administrative expense of $827,442 and $1,364,647, respectively, for the nine months ended July 31, 2001 resulting from increased research and development activities and an increase in the Company's corporate infrastructure associated with operations from two separate office spaces.

The acquired in-process research and development costs in 2000 were associated with the acquisitions of New Wheel Technology ($6,000,000) and Impact Pictures ($50,000).

OTHER EXPENSES. Other expenses included amortization of unearned financing fees, interest expense and settlement of litigation. Total other expenses increased from $170,473 for the nine months ended July 31, 2000 to $1,777,179 for the nine months ended July 31, 2001. The increase was principally related to an increase of $583,333 in amortization of unearned financing fees and a settlement of litigation for shares of common stock amounting to $1,000,000. The Company issued 250,000 shares of common stock valued at $1,000,000 for the February 16, 2001 settlement reached with Astounding.com, Inc. and Jack Robinson in connection with certain disputes arising from a non-consummated merger between us and Astounding.com, Inc.

For the Three Months Ended July 31, 2001 vs. the Three Months Ended July 31, 2000

REVENUES. Revenues for the three months ended July 31, 2001 were $-0-. Revenues for the three months ended July 31, 2000 were $900.

OPERATING EXPENSES. Operating expenses include amortization of project costs, depreciation of property and equipment, compensatory element of stock issuances, acquired in-process research and development expenses, and selling, general and administrative costs. Total operating expenses increased from $1,394,703 for the three months ended July 31, 2000 to $4,395,030 for the three months ended July 31, 2001. The increase was principally related to an increase of $1,790,544 in the compensatory element of stock issuances, an increase of $345,557 in research and development costs and an increase of $880,772 in selling, general and administrative expense. The increase in selling, general and administrative expense was due to an increase in the Company's corporate infrastructure, which includes two separate office spaces.

OTHER EXPENSES. Other expenses included amortization of unearned financing fees and interest expense. Total other expenses increased from $170,473 for the three months ended July 31, 2000 to $258,749 for the three months ended July 31, 2001 due primarily to an increase of $83,333 in amortization of unearned financing costs.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2001, we had cash of approximately $254,000 compared to approximately $189,000 at October 31, 2000. We had accounts payable and accrued expenses of approximately $699,500 at July 31, 2001 and $447,000 at October 31, 2000.

We operate in two business segments - an entertainment segment involving the production of motion pictures, films and videos, and a telecommunications segment involving the development of transmission technologies. The success of our entertainment segment is dependent on future revenues from a feature-length film for theatrical distribution that is the subject of the joint venture production agreement discussed below. The success of our telecommunications segment is dependent upon the successful completion of development and testing of, and the receipt of future revenues derived from, our transmission technology.

During the nine months ended July 31, 2001, we incurred operating expenses of approximately $6.3 million, of which approximately $3.9 million were cash expenses and $2.4 million were non-cash expenses relating to compensatory charges for stock issuances. Until we begin to receive revenues from our business segments, we will have no operating revenues, but will continue to incur substantial operating expenses, capitalized costs and operating losses.

Operations have been financed through private sales of common stock and loans, resulting in net proceeds of approximately $5,058,000 and $2,594,000 for the nine months ended July 31, 2001 and July 31, 2000, respectively. In addition, during the nine months ended July 31, 2000, a portion of expenses was paid by the issuance of stock.

Management is exploring a variety of financing alternatives in order to fund operations, and presently intends to raise additional funds through private equity and/or debt financings. While we believe that we will be able to secure such additional financing, we cannot be certain that we will be able to find such financing on reasonable terms. If we are unable to obtain additional financing, we would be required to decrease expenses and otherwise modify our business plan in accordance with the extent of available financing.

In April 2000, we entered into a joint venture production agreement to produce a feature length film for theatrical distribution. Under the agreement, we will provide the funding for the production in the amount of $2,250,000 and, in exchange, we will receive a 50% share in all net profits from worldwide distribution and merchandising, after receiving funds equal to our initial investment of up to $2,250,000. The film is to be completed and ready for a Summer 2002 release. We have agreed to deposit into a separate account, on a monthly basis, funds to assure a minimum balance of $200,000 at the beginning of each month, until the total of $2,250,000 has been deposited into the account. As of July 31, 2001, we had funded approximately $1,404,287 of the production costs towards this project.

Research and development expenses for the Company amounted to $1,190,348 and $362,906 for the nine months ended July 31, 2001 and the nine months ended July 31, 2000, respectively.

On November 17, 2000, and as amended on January 22, 2001, we entered into a private placement agreement with various investors, to sell $5,000,000 of our common stock in several tranches at a purchase price equal to 87% of the average market price of our common stock over the five days preceding the closing of each draw down. We can sell stock to the investors in 5-day intervals not to exceed $500,000 per sale. The investor may refuse to purchase the stock in the event the average purchase price is below $2.00 per share, or if the trading volume of our common stock is below a certain number of shares within the period, or if we sell capital stock in excess of $5,000,000, exclusive of any funding for our pending motion picture project. We may not apply any portion of the draw downs towards payment of any costs related to the production of our pending motion picture project. In May 2001, the original investors assigned their rights and obligations under the agreement to two institutional investors. This agreement terminates on November 17, 2002.

In addition, the investors received warrants to purchase 4,000,000 shares of common stock to be issued in two series (Series A warrants and Series B warrants). Each Series A warrant can be exercised at a price per share equal to the lesser of $6.00 or 50% of the average of the closing sales price of our common stock over the five consecutive trading days immediately preceding the date of the exercise of the warrants. Each Series B warrant can be exercised at a price per share of $6.00. The Series B warrants have a cashless exercise provision. The warrants expire on November 17, 2003.

Through July 31, 2001, we received proceeds under this agreement of $3,930,454 from the investors in consideration of the purchase of 1,736,355 shares of our common stock.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments -- Deferral of the Effective Date of SFAS Statement No. 133" and in June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments -- an amendment of SFAS 133, Accounting for Derivative Instruments and Hedging Activities". As a result of SFAS No. 137, SFAS No. 133 and SFAS No. 138 will be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. We do not expect that the adoption of this standard will have a material impact on our financial position and results of operations.

38

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments -- an amendment of FAS 133, Accounting for Derivative Instruments and Hedging Activities". SFAS No. 138 will be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. We do not expect that the adoption of this standard will have a material impact on our financial position and results of operations.

In June 2000, the Financial Accounting Standards Board issued SFAS No. 139, which rescinds SFAS No. 53 and requires public companies to follow the guidance provided by SOP 00-2.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No. 25". FIN 44 clarifies the application of Opinion 25 with respect to (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. We adopted FIN 44 effective July 1, 2000. The adoption of the provisions of FIN 44 did not have a material effect on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes to the Company's market risk for the nine months ended July 31, 2001. See the Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2000 for additional discussions regarding quantitative and qualitative disclosures about market risk.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

(c) During the three months ended July 31, 2001, the Company sold unregistered securities as follows:

1. On Noveber 17, 2000, the Company entered into a Securities Purchase Agreement with eight investors to sell up to $5,000,000 of the Company's common stock in several tranches over the next two years. On May 22, 2001, we entered into an Assignment and Assumption Agreement in which the eight investors assigned their rights and obligations to purchase the Company's common stock under the Securities Purchase Agreement to two of the original investors. During the three months ended July 31, 2001, the Company received approximately $2,743,000 under this agreement in consideration for the issuance of 1,653,662 shares of common stock.

2. In May and June 2001, the Company issued 50,960 shares of common stock valued at $171,744 to Strategica Services Corporation for consulting services.

3. On June 2, 2001, the Company issued 500,000 shares of common stock to Ivan Berkowitz, a director of the Company, in consideration of Mr. Berkowitz's services to the Company. The shares had a value at the time of issuance of $945,000.

All transactions described above were deemed to be exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) of such Securities Act as transactions by an issuer not involving any public offering. All purchasers were "accredited investors" within the meaning of Regulation D under the Securities Act of 1933. All of the securities issued in these transactions contained a restrictive legend to the effect that they could not be sold or transferred without registration or an applicable exemption.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS.

The Company submitted the following matters to a vote of its shareholders at its annual meeting, which was held June 27, 2001.

(a) The Company's shareholders were asked to vote for the election of Ivan Berkowitz, Lilly Beter, Allan Blevins, Bruce Brown, John Howell, Celso B. Suarez, Jr., Ray Willenberg, Jr. and C. Rich Wilson III to the Board of Directors of the Company, to hold office until the 2002 Annual Meeting of Shareholders. The shareholders elected each director with 21,524,369 votes cast for, 1,704,140 votes cast against, and 54,902 abstentions.

(b) The Company's shareholders were asked to approve an amendment to Article I of the Company's Articles of Incorporation to change the name of the Company from New Visual Entertainment, Inc. to New Visual Corporation. This amendment to the Company's Articles of Incorporation was approved with 23,259,347 votes cast for, 19,753 votes cast against, and 4,311 abstentions.

(c) The Company's shareholders were asked to ratify the selection of Grassi & Co., CPAs, P.C. as the Company's independent auditors for the fiscal year ending October 31, 2001. The shareholders ratified the selection of the independent auditors with 23,259,010 votes cast for, 36,100 votes cast against, and 18,301 abstentions.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

3.1 Articles of Amendment to the Articles of Incorporation of New Visual Entertainment, Inc., as filed on July 3, 2001.

(b) Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEW VISUAL CORPORATION
(Registrant)

Dated: September 14, 2001

By: /s/ RAY WILLENBERG, JR.
RAY WILLENBERG, JR.
President and Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)

Dated: September 14, 2001

By: /s/ THOMAS J. SWEENEY
THOMAS J. SWEENEY
Chief Financial Officer
(PRINCIPAL FINANCIAL OFFICER)