NEW VISUAL CORP
Form 10QSB
June 21, 2004

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

FORM 10-QSB

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2004

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

COMMISSION FILE NUMBER 0-21785

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

UTAH	95-4545704
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
5920 FRIARS ROAD, SUITE 104 SAN DIEGO, CALIFORNIA 92108	(619) 692-0333
(Address of principal executive offices, including zip code)	(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 June 21, 2004, was 78,604,866.

PART I - FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

FORM 10-QSB

NEW VISUAL CORPORATION

APRIL 30, 2004

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NEW VISUAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

ASSETS

	April 30, 2004
Current Assets:	
Cash	$ 22,868
Other current assets	6,644
Total Current Assets	29,512
Property and equipment - net of accumulated depreciation of $429,203	32,518
Technology license and capitalized software development fee	5,751,000
Film in distribution - net	2,055,998
Deferred financing costs	192,952
Other assets	13,434
Total Assets	$ 8,075,414

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Convertible notes payable	$ 873,000
Notes payable	752,310
Convertible debentures, less debt discount of $988,888	111,112
Accounts payable and accrued expenses	1,604,400
Total Current Liabilities	3,340,822
Redeemable Series B preferred stock	3,192,000
Total Liabilities	6,532,822
Commitments, Contingencies and Other Matters	
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; 500,000,000 shares authorized; 78,604,866 issued and outstanding	78,605
Additional paid-in capital	54,093,805
Unearned financing fees	(5,224)
Unearned compensation	(525,000)
Accumulated deficit	(52,099,594)
Total Stockholders' Equity	1,542,592
Total Liabilities and Stockholders' Equity	$ 8,075,414

See notes to condensed consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Six Months Ended April 30,	
	2004	2003
REVENUES	$ 170,843	$ --
OPERATING EXPENSES:		
Cost of sales	86,214	--
Research and development	10,000	71,401
Compensatory element of stock issuances for selling, general and administrative expenses	1,066,146	1,332,993
Selling, general and administrative expenses	1.122,111	990,143

TOTAL OPERATING EXPENSES	2,284,471	2,394,537
OPERATING LOSS	(2,113,628)	(2,394,537)
OTHER (INCOME) EXPENSES:		
Interest expense	207,275	124,120
Non-cash gain - litigation settlement	--	(1,474,000)
Amortization of unearned financing costs	94,709	210,151
Other	(905)	--
TOTAL OTHER (INCOME) EXPENSES	301,079	(1,139,729)
NET LOSS	$ (2,414,707)	$ (1,254,808)
BASIC AND DILUTED NET LOSS PER COMMON STOCK	$ (.03)	$ (.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	75,674,954	54,304,668

See notes to condensed consolidated financial statements.

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NEW VISUAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended April 30,	
	2004	2003
REVENUES	$ 30,200	--
OPERATING EXPENSES:		
Cost of sales	14,820	--
Research and development	--	31,401
Compensatory element of stock issuances for selling, general and administrative expenses	316,565	727,838
Selling, general and administrative expenses	537,525	491,415
TOTAL OPERATING EXPENSES	868,910	1,250,654
OPERATING LOSS	(838,710)	(1,250,654)

OTHER (INCOME) EXPENSES:		
Interest expense	139,550	62,729
Amortization of unearned financing costs	5,225	116,659
Other	(905)	--
TOTAL OTHER EXPENSES	143,870	179,388
NET LOSS	$ (982,580)	$ (1,430,042)
BASIC AND DILUTED NET LOSS PER COMMON STOCK	$ (.01)	$ (.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	77,803,080	59,031,251

See notes to condensed consolidated financial statements.

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NEW VISUAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE SIX MONTHS ENDED APRIL 30, 2004

	Common Stock		Additional Paid-In
	Shares	Amount	Capital
Balance - November 1, 2003	70,676,682	$ 70,677	$51,131,622
Issuance of common stock for cash	2,225,835	2,226	377,274
Issuance of common stock for extension of promissory notes and Interest	280,003	280	67,987
Issuance of common stock for deferred payroll	527,892	528	130,012
Issuance of common stock for compensation	1,049,999	1,050	244,949
Issuance of common stock under consulting agreements	3,800,000	3,800	926,200
Issuance of common stock for services	44,455	44	10,521
Stock offering costs	--	--	(14,075)
Warrants issued with convertible debentures	--	--	470,082
Value assigned to beneficial conversions	--	--	629,918
Warrants issued to placement agent	--	--	103,323
Value assigned to warrants issued for extension of convertible notes	--	--	15,992
Amortization of unearned compensation expense	--	--	--
Amortization of unearned financing costs	--	--	--
Net loss	--	--	--

Balance - April 30, 2004	78,604,866	$ 78,605	$54,093,805

See notes to condensed consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE SIX MONTHS ENDED APRIL 30, 2004

	Unearned Financing Costs	Unearned Compensation	Accumulated Deficit
Balance - November 1, 2003	$ (15,674)	$ (404,582)	$(49,684,887)
Issuance of common stock for cash	--	--	--
Issuance of common stock for extension of promissory notes and interest	(68,267)	--	--
Issuance of common stock for deferred payroll	--	--	--
Issuance of common stock for compensation	--	(245,999)	--
Issuance of common stock under consulting agreements	--	(930,000)	--
Issuance of common stock for services	--	--	--
Stock offering costs	--	--	--
Warrants issued with convertible debentures	--	--	--
Value assigned to beneficial conversions	--	--	--
Warrants issued to placement agent	--	--	--
Value assigned to warrants issued for extension of convertible notes	(15,992)	--	--
Amortization of unearned compensation expense	--	1,055,581	--
Amortization of unearned financing costs	94,709	--	--
Net loss	--	--	(2,414,707)
Balance - April 30, 2004	$ (5,224)	$ (525,000)	$(52,099,594)

See notes to condensed consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended April 30, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(2,414,707)	$(1,254,808)
Adjustments to reconcile net loss to net cash used in operating activities:		
Consulting fees and other compensatory elements of stock issuances	1,066,146	1,332,993
Unusual item - gain on Litigation Settlement	--	(1,474,000)
Amortization of unearned financing costs	117,580	210,151
Amortization of film in production costs	86,214	--
Amortization on debt discount on notes	111,112	--
Depreciation	8,783	18,247
Change in Assets (Increase) Decrease:		
Other current assets	(1,629)	(25,964)
Other assets	398	707
Change in Liabilities Increase (Decrease):		
Accounts payable and accrued expenses	(10,740)	(296,774)
NET CASH USED IN OPERATING ACTIVITIES	(1,036,843)	(1,489,448)
CASH USED IN INVESTING ACTIVITIES		
Acquisition of license	(95,000)	(491,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	379,500	2,024,707
Offering costs related to stock issuances	(14,075)	(129,217)
Proceeds from convertible debentures	1,100,000	--
Proceeds from note payable	12,000	--
Proceeds from convertible notes payable	--	188,000
Capitalized financing costs	(112,500)	--
Repayments of convertible debentures	(300,000)	--
Repayments of notes payable	--	(231,096)
Repayments of convertible notes payable	(230,000)	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	834,925	1,852,394
DECREASE IN CASH AND CASH EQUIVALENTS	(296,918)	(128,054)
CASH AND CASH EQUIVALENTS - BEGINNING	319,786	311,577
CASH AND CASH EQUIVALENTS - ENDING	$ 22,868	$ 183,523

See notes to condensed consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended April 30, 2004	2003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 3,540	$ 18,904
Income taxes	$ --	$ --
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for notes payable and accrued interest	$ --	$ 256,250
Common stock issued for extension of convertible notes payable	$ 15,992	$ --
Value assigned to warrants issued to placement agent	$ 103,323	$ --
Accounts payable and accrued expenses satisfied by issuance of common stock	$ 130,011	$ --
Value assigned to beneficial conversion in connection with the 7% convertible debenture	$ 629,918	$ --
Value assigned to warrants issued to purchasers of convertible debentures	$ 470,082	$ --

See notes to condensed consolidated financial statements.

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NEW VISUAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1- PRINCIPLES OF CONSOLIDATION AND BUSINESS AND CONTINUED OPERATIONS

The condensed consolidated financial statements include the accounts of New Visual Corporation and its wholly owned operating subsidiaries, NV Entertainment, Inc. (including its 50% owned subsidiary Top Secret Productions, LLC), Impact Multimedia, Inc. and NV Technology, Inc. (formerly New Wheel Technology, Inc.) ("New Wheel") (collectively, the "Company"). All significant inter-company balances and transactions have been eliminated. The Company consolidates its 50% owned subsidiary Top Secret Productions, LLC due to the Company's control of management, board of directors and financial matters.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Unites States of America ("US GAAP"). In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. These financial statements should be read in conjunction with the financial statements and notes related thereto, included in the Annual Report on Form 10-K for year ended October 31, 2003.

These results for the period ended April 30, 2004 are not necessarily indicative of the results to be expected for the full fiscal year. The preparation of the consolidated financial statements in conformity with US GAAP 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.

New Visual Corporation was incorporated under the laws of the State of Utah on December 5, 1985. In November of 1999, the Company began to focus its business activities on the development of new content telecommunications technologies. Pursuant to such plan, in February of 2000, the Company acquired New Wheel Technology, Inc., a development stage, California-based, technology company, which now operates as the Company's wholly-owned subsidiary, NV Technology, Inc., a Delaware corporation. As a result of the change in business focus, the Company became a development stage entity commencing November 1, 1999. With the completion of the film "Step Into Liquid" and its revenue generation during the fourth quarter of fiscal 2003 the Company was no longer considered a development stage entity.

The Company operates in two business segments, the production of motion pictures, films and videos (the "Entertainment Segment") and development of new content telecommunications technologies (the "Telecommunication Segment"). The success of the Company's Entertainment Segment is dependent on future revenues from the film "Step Into Liquid." The success of the Telecommunications Segment is dependent on the Company's ability to successfully commercialize its semiconductor technology.

Through its subsidiary NV Entertainment the Company recorded operating revenues for its Entertainment Segment, but may continue to report operating losses for this segment. The Telecommunications Segment will have no operating revenues until successful commercialization of its developed technology, but will continue to incur substantial operating expenses, capitalized costs and operating losses.

NOTE 1 - PRINCIPLES OF CONSOLIDATION AND BUSINESS AND CONTINUED OPERATIONS (Continued)

Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going-concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, for the six and three months ended April 30, 2004, the Company incurred net losses of $2,414,767 and $982,580, respectively. In addition, the Company had a working capital deficiency of $3,311,310 as of April 30, 2004. The Company has limited capital resources and requires additional funding in order to sustain its operations, accomplish its growth objectives and market its planned products and services. There is no assurance that the Company can reverse its operating losses, or that it can raise additional capital to allow it to maintain operations or expand its planned operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

In December 2003, the Company completed a private placement of $1,000,000 of its three-year 7% Convertible Debentures (the "Debentures"). Following the repayment of the outstanding principal and accrued interest on short-term funding that was to become due in April 2004 and other offering related expenses, the Company received net proceeds of approximately $584,000. In addition the Company signed commitments to place an additional $1,000,000 of Debentures following such time, as the Securities and Exchange Commission (the "SEC") declares the registration statement covering the common stock underlying the Debentures, which the Company filed in February 2004, (and subsequently amended in April 2004), effective. In April and May 2004, certain holders of the Debentures waived the registration statement effectiveness condition and purchased an aggregate of $350,000 of Debentures, thus satisfying their post effectiveness commitments. In June 2004, the SEC advised the Company that it may not include in the registration statement any of the shares underlying the Debentures issued after the filing of such registration statement in February 2004. Accordingly, the Company will not be placing any additional Debentures under this transaction. See Note 6, "Convertible Debentures." The Company needs to raise approximately $400,000 on an immediate basis in order to maintain its operations as presently conducted through fiscal 2004. The Company currently has no commitments for any funding and no assurance can be provided that the Company will be successful in raising any of the needed funds. The inability to obtain needed funding will have a material adverse effect on the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty and these adjustments may be material.

The Company's ability to continue as a going concern is dependent upon obtaining additional financing. Management believes that the Company will need to raise an additional $3,000,000 to $4,000,000 to complete the design, testing and commence the commercialization of its Semiconductor Technologies. The Company has no commitments for such amounts nor can any assurance be provided that the Company will be successful in raising needed amounts on commercially acceptable terms or at all.

These condensed consolidated financial statements do not include any adjustments relating to the recoverability of recorded asset amounts that might be necessary as a result of the above uncertainty.

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NEW VISUAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Film In Distribution

Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP-00-2") requires that film costs be capitalized and reported as a separate asset on the balance sheet. Film costs include all direct negative costs incurred in the production of a film, as well as allocations of production overhead and capitalized interest. Direct negative costs include cost of scenario, story, compensation of cast, directors, producers, writers, extras and staff, cost of set construction, wardrobe, accessories, sound synchronization, rental of facilities on location and post production costs. SOP-00-2 also requires that film costs be amortized and participation costs accrued, using the individual-film-forecast-method-computation method, which amortizes or accrues such costs in the same ratio that the current period actual revenue (numerator) bears to the estimated remaining unrecognized ultimate revenue as of the beginning of the fiscal year (denominator). The Company makes certain estimates and judgments of its future gross revenue to be received for each film based on information received by its distributors, historical results and management's knowledge of the industry. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. A change to the estimate of gross revenues for an individual film may result in an increase or decrease to the percentage of amortization of capitalized film costs relative to a previous period.

In addition, SOP-00-2 also requires that if an event or change in circumstances indicates that an entity should assess whether the fair value of a film is less than its unamortized film costs, then an entity should determine the fair value of the film and write-off to the statement of operations the amount by which the unamortized capital costs exceeds the film's fair value.

The Company commences amortization of capitalized film costs and accrues (expenses) participation costs when a film is released and it begins to recognize revenue from the film. The Company had amortization costs of $14,820 and $86,214 for the three and six months ended April 30, 2004, respectively.

The Company did not amortize any production costs during the three or six months ended April 30, 2003 since the film was not in distribution.

NEW VISUAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company recognizes film revenue from the distribution of its feature film and related products when earned and reasonably estimable in accordance with SOP
00-2 -- "Accounting by Producers or Distributors of Films." The following conditions must be met in order to recognize revenue in accordance with SOP
00-2:

- persuasive evidence of a sale or licensing arrangement with a customer exists;
- the film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and

unconditional delivery;

- the license period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale;
- the arrangement fee is fixed or determinable; and
- collection of the arrangement fee is reasonably assured.

Under a rights Agreement with Artisan Pictures, Inc. ("Artisan"), the Company's domestic distributor for its feature length film entitled "Step into Liquid", the Company shares with Artisan in the profits of STEP INTO LIQUID after Artisan recovers its marketing, distribution and other predefined costs and fees. The agreement provides for the payment of minimum guaranteed license fees, usually payable on delivery of the respective completed film, that are subject to further increase based on the actual distribution results in the respective territory. The Company recorded revenues of $30,200 and $170,843 for the quarter ended and six months ended April 30, 2004. There were no revenues for the quarter and six months ended April 30, 2003.

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.

Capitalized Software Development Costs

Capitalization of computer software development costs begins upon the establishment of technological feasibility. Technological feasibility for the Company's computer software is generally based upon achievement of a detail program design free of high-risk development issues and the completion of research and development on the product hardware in which it is to be used. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized computer software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized Software Development Costs (Continued)

Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product, or (b) the straight-line method over the remaining estimated economic life of the product.

The Company periodically performs reviews of the recoverability of such capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, the capitalized costs of each software product is then valued at the lower of its remaining unamortized costs or net realizable value.

The Company has no amortization expense for the six months ended April 30, 2004 and 2003 for its capitalized software development costs as the technology was not available for commercialization.

Series B Redeemable Preferred Stock

Series B Redeemable Preferred Stock, which includes characteristics of both liabilities and equity, is classified as a long-term liability in accordance with the provisions of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."

Net Income (Loss) Per Common Share

Basic net loss per share of common stock is computed based on the weighted average shares outstanding and excludes any potential dilution. Diluted loss per share reflects the potential dilution from the exercise or conversion of all dilutive securities into common stock based on the average market price of common shares outstanding during the period. For the period ended April 30, 2004 and 2003, no effect has been given to outstanding options, warrants or convertible debentures in the diluted computation, as their effect would be anti-dilutive.

Stock-Based Compensation

The Company follows SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes accounting and reporting standards for stock-based employee compensation plans. This statement allows companies to choose between the fair value-based method of accounting as defined in this statement and the intrinsic value-based method of accounting as prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees."

The Company has elected to continue to follow the accounting guidance provided by APB 25, as permitted for stock-based compensation relative to the Company's employees. Stock and options granted to other parties in connection with providing goods and services to the Company are accounted for under the fair value method as prescribed by SFAS 123.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation (Continued)

In December 2002, the Financial Accounting Standard Board ("FASB") issued SFAS

No. 148, "Accounting for Stock-Based Compensation -Transition and Disclosure - an Amendment of FASB Statement No. 123". This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No.148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 also requires that those effects be disclosed more prominently by specifying the form, content, and location of those disclosures.

	For the Six Months Ended April 30,		
	2004	2003	200
Net loss, as reported	$(2,414,707)	$(1,254,808)	$ (98
Add: Stock-based employee compensation expense included in reported net loss	--	--	
Less: Total stock-based employee compensation expense determined under the fair value-based method of all awards	(80,000)	(713,374)	
Proforma net loss	$(2,494,707)	$(1,968,182)	$ (98
Basic and Diluted Net Loss per Common Stock:			
As reported	$ (0.03)	$ (0.02)	$
Proforma	$ (0.03)	$ (0.04)	$

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NEW VISUAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Standards

In January 2003, the FASB issued Interpretation Number 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). This interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," provides guidance for identifying a controlling interest in a variable interest entity ("VIE") established by means other than voting interests. FIN No. 46 also requires consolidation of a VIE by an enterprise that holds such a controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN No. 46 and issued Interpretation Number 46(R), "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51" ("FIN No. 46(R)"). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46(R) is required in financial statements of public entities that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public small business issuers' entities is required in all interim and annual financial statements for periods ending after December 15, 2004. The adoption of FIN No. 46(R) is not expected to have an impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 3 - FILM IN DISTRIBUTION

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film ("Step Into Liquid") for theatrical distribution. The Company agreed to provide the funding for the production in the amount of up to $2,250,000 and, in exchange, received 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. As of April 30, 2004 the Company has funded a net of $2,335,101 for completion of the film. The film is currently in distribution. The Company has recognized revenues of $30,200 and $170,843 for the three months and six months ended April 30, 2004, respectively. The Company's management believes revenues from the film will be more than adequate to cover the capitalized production costs. The Company had amortization costs of $14,820 and $86,214 for the three months and six months ended April 30, 2004, respectively, for the film. The total film production costs and related amounts capitalized are as follows:

	April 30, 2004
Released films	$2,335,101
Less: Cumulative amortization of film production costs	279,103
Total film production costs capitalized for released films	2,055,998
Films in production	--
Films in development or pre-production	--
Total Film Production Costs Capitalized	$2,055,998

NEW VISUAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 3 - FILM IN DISTRIBUTION (Continued)

Based on anticipated future revenues, amortization of the costs of the films in distribution are estimated to be:

For the years ending October 31,	Amount
2004 (6 months)	$ 1,675,275
2005	126,908
2006	101,526
2007	152,289
Total	$ 2,055,998

NOTE 4 - DEFERRED FINANCING COST

At April 30, 2004, deferred financing cost consists of costs incurred in connection with the sale of $1,100,000 of 7% convertible debentures (Note 6).

Deferred financing cost	$215,823
Less : Accumulated amortization	(22,871)
Deferred Financing Cost, net	$192,952

Amortization of deferred financing cost for the six months ended April 30, 2004 was $22,871.

NOTE 5 - CONVERTIBLE NOTES PAYABLE

The Company entered into several convertible promissory note agreements with various trusts and individuals, in which it agreed to pay the principal and an additional amount equal to 50% of the principal. The notes are due when the Company reaches certain milestones from the distribution of its motion picture (Note 3). The notes may be converted at any time, in whole or in part, into that number of fully paid and non-assessable shares of common stock at conversion prices ranging from $.33 to $1.00. These and the Company's other notes are summarized in the table below:

	April 30, 2004
Note payable (1)	$ 200,000
Notes payable (ten notes) (2)	483,000
Note payable, 9% interest (3)	10,000
Notes payable (four notes), 12% interest (4)	180,000
Total	$ 873,000

(1) Due when receipts received by the Company from the joint venture exceed $375,000.

(2) Due when receipts received by the Company from the joint venture exceed $2,250,000.

(3) Due when receipts received by the Company from the joint venture exceed $750,000.

(4) Notes had an original due date of November 21, 2003. The note holders extended the due date to January 7, 2004 in exchange for 160,000 shares of common stock. In January 2004 the Company paid $180,000 of principal payments and issued 120,003 of shares of common stock in exchange for further extending the due date of the notes until the next round of financing is completed. In addition the Company granted warrants to purchase 120,003 shares of common stock (see Note 7)

NEW VISUAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - 7% CONVERTIBLE DEBENTURES

In December 2003, the Company completed a private placement to certain private and institutional investors of $1 million in principal amount of its three year 7% Convertible Debentures (the "Debentures") and signed commitments to place an additional $1,000,000 of such Debentures (the "Additional Debentures") when the Company's registration statement (the "Registration Statement") covering the Common Stock underlying the Debentures, filed on February 11, 2004 and amended on April 28, 2004, is declared effective by the SEC. In April 2004, certain holders of the Debentures waived the registration statement effectiveness condition and purchased $100,000 in principal amount of Debentures, satisfying their post effectiveness commitments. In June 2004, the SEC advised the Company that it may not include in the registration statement any of the shares underlying the Debentures issued after the filing of such registration statement in February 2004. As an effective Registration Statement covering the shares underlying the Additional Debentures is a condition to the investors' purchase of the Additional Debentures, the Company does not anticipate that it will be placing any Additional Debentures in connection with this transaction. The Company intends to shortly file a revised Registration Statement in connection with the shares underlying the $1,000,000 in principal amount of Debentures issued in December 2003. The Company anticipates that it will file at a later date a subsequent registration statement in respect of the shares underlying the Debentures issued in April.

In connection with the issuance of the Debentures in December 2003, the Company issued five-year warrants to purchase up to 6,666,667 shares of the Company's Common Stock, at a per share exercise price of $0.25, subject to cashless exercise provisions. In connection with the issuance of the Debentures in April, the Company issued five-year warrants to purchase up to 666,666 shares of the Company's Common Stock, at a per share exercise price of $0.25, subject to cashless exercise provisions.

The holders of the debentures can convert their debt into shares of the Company's common stock at $.15 per share subject to certain dilution adjustments.

Accrued interest under the debentures may be paid in cash or Common Stock. In the event of an uncured default, as defined, or a non-permitted sale of securities, the holders of the Debenture can require the Company to redeem their Debentures. Providing that the certain conditions are met, the Debentures automatically convert into common shares on the third anniversary of issuance. In addition, under certain circumstances, the Company can require the conversion of the Debentures before such time.

The gross proceeds of the $1,000,000 in December of 2003 were allocated 57.73% or $577,259 to the debenture and 42.27% or 422,741 to the warrants. The conversion price of the debentures was below the market price of the Company's common stock at December 31, 2003, which resulted in a beneficial conversion feature relating to the first $1,000,000 of $577,259. In Accordance with EITF 00-27 the amount allocated to the beneficial conversion feature was limited to the net proceeds of the offering less the value allocated to the warrants issued to the purchasers.

The gross proceeds of the $100,000 in April of 2004 were allocated 52.66% or $52,659 to the debenture and 47.34% or 47,341 to the warrants. The conversion price of the debentures was below the market price of the Company's common stock at April 20, 2004, which resulted in a beneficial conversion feature of $52,659. In Accordance with EITF 00-27 the amount allocated to the beneficial conversion feature was limited to the net proceeds of the offering less the value allocated to the warrants issued to the purchasers.

The amount allocated to the warrants of $470,082 and the amount of the beneficial conversion feature of $629,918 were both recorded as a debt discount and are being charged to interest expenses over the term of the Debentures.

In connection with this private placement, the Company issued to the placement agent warrants to purchase 733,333 shares of the Company's Common Stock valued at $103,323 and incurred $112,500 of other debt issuance costs. Such amount was recorded as deferred financing costs and is being charged to interest expense over the term of the loan. The warrants to purchase 666,667 shares of common stock expire on December 31, 2008 and the warrants to purchase 66,666 shares of common stock expire on April 20, 2009. In each case, the warrants are exercisable at $.15 per share.

NOTE 6 - 7% CONVERTIBLE DEBENTURES DUE DECEMBER 31, 2006 (Continued)

The Company paid in full ($300,000 plus $3,540 of accrued interest) the 7% convertible debenture due April 30, 2004 out of the proceeds it received from the above December 31, 2003 private placement.

NOTE 7 - STOCKHOLDERS' EQUITY

Common Stock Issuances During the Six Months Ended April 30, 2004:

During the six months ended April 30, 2004, the Company:

- issued 280,003 shares of common stock valued at $68,267 as consideration for the extension of the due date of certain convertible notes payable;
- issued 527,892 shares of common stock for deferred compensation of $130,540;
- issued 1,049,999 shares of common stock for compensation to four officers valued at $245,999;
- issued 3,800,000 shares of common stock for consulting services valued at 930,000; and
- issued 44,455 shares of common stock to a vendor for services valued at $10,565.
- issued 2,225,835 shares to various investors for cash proceeds of $379,500.

Warrants Granted

On December 31, 2003 the Company issued warrants to purchase 6,666,667 shares of its Common Stock at an exercise price of $.25 in connection with the placement of $1,000,000 of Debentures (see note 6).

On December 31, 2003 the Company issued a warrant to purchase 666,667 shares of its Common Stock at an exercise price of $.15 to the placement agent in connection with the placement of $1,000,000 of Debentures. The fair value of the stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.14 per share or $93,333 (see note 6).

The Company granted to four convertible note holders warrants to purchase 120,003 shares of its Common Stock at an exercise price of $.25 in connection with the extension of the convertible notes due date. The fair value of the stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.13 per share or $15,992.

On April 20, 2004 the Company issued warrants to purchase 666,666 shares of its Common Stock at an exercise price of $.25 in connection with the $100,000 of Debenture (see note 6).

On April 20, 2004, the Company granted a warrant to purchase 66,666 shares of its Common Stock at the exercise price of $.15 to the placement agent in connection with the placement of $100,000 of Debenture. The fair value of the stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.15 per share or $9,990.

NEW VISUAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - COMMITMENTS AND CONTINGENCIES

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	9,886,665
Options to purchase common stock	6,378,750
Convertible notes payable and accrued interest	2,675,055
7% convertible debenture due December 31, 2006	7,333,333
Series B Preferred stock (based on a floor conversion price of $.34 at April 30, 2004)	9,388,235
Total as of April 30, 2004	35,662,038
Substantial issuance after April 30, 2004 through June 16, 2004:	
Common Stock issuable in connection with May 2004 250,000 convertible note and warrants	3,500,000

NOTE 9 - SEGMENT INFORMATION

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

For the six months ended April 30, 2004:

	Telecommunications Business	Entertainment Business	Unallocable	Totals
Net Sales	$ --	$ 170,843	$ --	$ 170,84
Operating (Loss) Income	$ (172,560)	$ 4,432	$(1,945,500)	$(2,113,62
Depreciation	$ 1,994	$ 6,789	$ --	$ 8,78
Total Identifiable Assets at April 30, 2004	$ 5,952,388	$ 2,090,119	$ 32,907	$ 8,075,41

NEW VISUAL CORPORATION AND SUBSIDIARIES
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NOTE 9 - SEGMENT INFORMATION (Continued)

For the six months ended April 30, 2003:

	Telecommunications Business	Entertainment Business	Unallocable	Totals
Net Sales	$ --	$ --	$ --	$ --
Operating Loss	$(1,201,532)	$ (9,598)	$(1,183,407)	$(2,394,537)
Depreciation and amortization	$ 168,655	$ 9,598	$ 1,208	$ 179,461
Total Identifiable Assets at October 31, 2003	$ 5,765,459	$2,243,154	$ 202,644	$ 8,211,257

For the three months ended April 30, 2004:

	Telecommunications Business	Entertainment Business	Unallocable	Totals
Net Sales	$ --	$ 30,200	$ --	$ 30,200
Operating Income (Loss)	$ (12,080)	$ 3,505	$ (830,135)	$ (838,710)
Depreciation	$ 835	$ 3,500	$ --	$ 4,335
Total Identifiable Assets	$5,952,388	$2,090,119	$ 32,907	$8,075,414

For the three months ended April 30, 2003:

	Telecommunications Business	Entertainment Business	Unallocable	Totals

Net Sales	$ --	$ --	$ --	$ --
Operating Income (Loss)	$(1,164,594)	$ (6,536)	$ (79,524)	$(1,250,654)
Depreciation	$ 84,491	$ 6,536	$ 63	$ 91,090
Total Identifiable Assets	$ 5,765,459	$2,243,154	$ 202,644	$ 8,211,257

NOTE 10 - SUBSEQUENT EVENTS

In May 2004, certain Debenture holders waived the registration statement effectiveness condition and purchased Debentures in the aggregate principal amount of $250,000. In connection with such purchase, the Company issued to these holders five year warrants to purchase 1,666,667 shares of its common stock at a per share exercise price of $0.25, subject to cashless exercise provisions. Under certain conditions, the warrant exercise period may be reduced. The Company anticipates that it will file at a later date a subsequent registration statement in respect of the shares underlying the Debentures issued in May.

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

You should read the following discussion in conjunction with our financial statements and the notes thereto included elsewhere herein. All statements in this Form 10-QSB related to New Visual Corporation and Subsidiaries ongoing financial operations and expected future results constitute forward-looking statements. The actual results may differ materially from those anticipated or expressed in such statements.

OVERVIEW

New Visual Corporation ("New Visual" or the "Company") is developing advanced transmission technology designed to enable data to be transmitted across copper wire at speeds and over distances that exceed those offered by existing forms of broadband technologies, such as digital subscriber lines (collectively, the "Semiconductor Technologies"). The Semiconductor Technologies are designed to dramatically increase the capacity of the copper telephone network, enabling telephone companies to leverage their existing copper wiring infrastructure and provide enhanced video, data and voice services over the existing copper telecommunications infrastructure. The Company conducts the Semiconductor Technologies activities through our wholly owned subsidiary NV Technology, Inc., a Delaware corporation ("NV Technology").

In April 2000, our wholly owned subsidiary, NV Entertainment, Inc. a Delaware company ("NV Entertainment") entered into a joint venture production agreement to produce "STEP INTO LIQUID", a feature length surfing documentary for theatrical distribution (the "Film"). NV Entertainment is a fifty-percent owner of Top Secret Productions, LLC, the producer of the Film. The Film opened in Hawaii, New York and Los Angeles on August 8, 2003 and played in more than 100 theaters across the United States during its 5-month theatrical run. With the completion of the film "Step Into Liquid" and its revenue generation during the fourth quarter of fiscal 2003 we are no longer considered a development stage entity. Our Semiconductor Technologies have generated no revenues to date.

FILM. The Film has completed its domestic theater run grossing approximately $3.7 million in box office revenues. As of April 30, 2004, the Company has received revenue distributions in the aggregate amount of approximately $551,000. The Film is currently being distributed to foreign markets for theatrical sales and to the United States market for DVD and cable television pay-per-view sales. The Company anticipates revenues in fiscal 2004 will exceed fiscal 2003 revenues as we anticipate additional foreign revenues, television rights and DVD sales. The DVD was released in the United States in April 2004. After 2004, the Company expects that revenues from the film will decline. All references henceforth to our business relating to the Film will sometimes be referred to in this report as the "Entertainment Business."

SEMICONDUCTOR TECHNOLOGIES. We continued development of our Semiconductor Technologies during the past quarter and are moving closer to having a semiconductor chip available. Currently, we estimate that we will need to raise an additional $3 million to $4 million in order to complete the design and commercialization of the Semiconductor Technologies, produce a semiconductor chip and market the chip. We currently have no commitments for the additional amounts and no assurance can be given that we will be able to raise these amounts on commercially acceptable terms or at all.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE AND SIX MONTHS ENDED APRIL 30, 2004 AND THE THREE AND SIX MONTHS ENDED APRIL 30, 2003

REVENUES.

Revenues for the quarter and six months ended April 30, 2004 of $30,200 and $170,844 respectively, were from guarantee fees from foreign distribution of the Film. There were no revenues for the quarter and six months ended April 30, 2003.

OPERATING EXPENSES.

Operating expenses decreased $382,000 to $869,000 for the quarter ended April 30, 2004 as compared to the corresponding quarter in 2003, primarily as a result of a decrease in the compensatory element of stock issuances for selling, general and administrative expenses ($415,000), slightly offset by an increase in selling, general and administrative expenses ($50,000). Operating expenses decreased approximately $100,000 to $2,300,000, for the six months ended April 30, 2004 as compared to the corresponding six months in 2003, primarily as a result of a decrease in the compensatory element of stock issuances for selling, general and administrative expenses ($300,000), slightly offset by an increase in selling, general and administrative expenses ($100,000).

OTHER (INCOME) EXPENSES.

Other (Income) Expenses decreased approximately $36,000 for the quarter ended April 30, 2004 from the corresponding quarter in 2003 primarily as a result of a decrease in the amortization of unearned financing costs ($111,000), offset by an increase in interest expense ($77,000). The six months ended April 30, 2003 included a non-recurring gain in litigation settlement of $1,474,000. Excluding this settlement, other expenses for the comparable six month period ended April 30, 2004 was approximately the same. However, for the six months ended April 30, 2004 operating expenses decreased approximately $110,000 as compared to the six months ended April 30, 2003, primarily due to an adjustment for the amortization of unearned financing costs.

NET INCOME (LOSS)

The Company generated net loss for the six months ended April 30, 2003 of $1,200,000 as a result of the litigation settlement of $1,500,000 discussed above. Excluding this litigation settlement, the Company lost $2,700,000 for the six month period ended April 30, 2003, compared to a loss of $2,400,000 for the same six month period ended April 30, 2004. The Company generated net loss for the quarter ended April 30, 2004 of $982,000 compared to a loss for the quarter ended April 30, 2003 of $1,430,000.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was approximately $1,000,000 for the six months ended April 30, 2004 and $1,500,000 for the six months ended April 30, 2003. Cash balances totaled $23,000 as of April 30, 2004 and $320,000 as of October 31, 2003.

Since November 1, 1999, operations have been financed principally through sales of Common Stock, the exercise of warrants and options to purchase common stock, and the issuance of convertible notes payable and notes payable. Net proceeds from financing activities amounted to approximately $835,000 for the six months ended April 30, 2004, primarily due to proceeds from convertible debentures amounting to $1,000,000. The Company also repaid $530,000 of debt during the first six months of fiscal 2004 and incurred approximately $14,000 in offering costs related to stock issuances. Net proceeds from financing activities amounted to $1,852,000 for the six months ended April 30, 2003. The Company also incurred $112,500 of capitalized financing costs related to the $1,000,000 convertible debentures.

Stock was issued in the payment of selling, general and administrative expenses amounting to approximately $1,100,000 for the six months ended April 30, 2004 and approximately $1,300,000 for the six months ended April 30, 2003.

Research and development expenses totaled $ 10,000 for the six months ended April 30, 2004 and $40,000 for the six months ended April 30, 2003.

In December 2003, the Company completed a private placement to certain private and institutional investors of $1 million in principal amount of its three year 7% Convertible Debentures (the "Debentures") and signed commitments to place an additional $1 million of such Debentures (the "Additional Debentures") when the Company's registration statement (the "Registration Statement") covering the Common Stock underlying the debentures, filed on February 11, 2004 and subsequently amended on April 28, 2004, is declared effective by the Securities and Exchange Commission. In connection with the issuance of the Debentures, the Company issued five-year warrants (the "Warrants") to purchase up to 6,666,667 shares of the Company's Common Stock. In April and May 2004, certain holders of the Debentures waived the registration statement effectiveness condition and purchased an aggregate of $350,000 in principal amount of Additional Debentures. In connection with these post filing Debenture purchases, the Company issued warrants for 2,333,334 shares of the Company's Common Stock. In each case, the Warrants are at a per share exercise price of $0.25 (the "Warrants"), subject to cashless exercise provisions; provided that the exercise period may be reduced under certain conditions (primarily relating to the effectiveness of the Registration Statement and the closing bid price of the Common Stock exceeding $1.00 for each of 20 consecutive trading days). In June 2004, the SEC advised the Company that it may not include in the registration statement any of the shares underlying the Debentures issued after the filing of such registration statement in February 2004. As an effective Registration Statement covering the shares underlying the Additional Debentures is a condition to the investors' purchase of the Additional Debentures, the Company does not anticipate that it will be placing any additional Debentures in connection with this transaction.

The Company needs to raise a minimum of $400,000 on an immediate basis in order to maintain its operations as presently conducted through fiscal 2004. The Company has no commitments for any such financing, and there can be no assurance that the financing will be available to us on commercially acceptable terms or at all. The inability to obtain such financing will have a material adverse effect on our business, its operations and future business prospects. It is also anticipated that any successful financing will have a significant dilutive effect on existing stockholders.

GOING CONCERN CONSIDERATION

The Company has incurred losses in each of its years of operation, negative cash flow and liquidity problems. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability of reported assets or liabilities should the Company be unable to continue as a going concern.

The Company has been able to continue based upon our receipt of funds from the issuance of equity securities and borrowings, including the additional Debentures purchased following the filing of the registration statement in February 2004, and by acquiring assets or paying expenses by issuing stock. The Company's continued existence is dependent upon its continued ability to raise funds through the issuance of its securities or borrowings, and its ability to acquire assets or satisfy liabilities by the issuance of stock. Management's plans in this regard are to obtain other debt and equity financing until profitable operation and positive cash flow are achieved and maintained. There can be no guarantee that financing will be available on commercially acceptable terms, or at all.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation Number 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). This interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," provides guidance for identifying a controlling interest in a variable interest entity ("VIE") established by means other than voting interests. FIN No. 46 also requires consolidation of a VIE by an enterprise that holds such a controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN No. 46 and issued Interpretation Number 46(R), "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51" ("FIN No. 46(R)"). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46(R) is required in financial statements of public entities that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public small business issuers' entities is required in all interim and annual financial statements for periods ending after December 15, 2004. The adoption of FIN No. 46(R) is not expected to have an impact on the Company's consolidated financial position, results of operations or cash flows.

ITEM 3. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING . During the quarter ended April 30, 2004, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

During the three months ended April 30, 2004, the Company issued unregistered securities as follows:

(i) In February 2004, the Company issued to

(A) a then executive officer 83,892 shares of Common Stock valued at $19,460 of which 63,818 shares were issued as salary valued at $14,040, per his employment agreement, and 20,074 shares were issued as a performance bonus;

(B) a non-management employee 4,000 shares of Common Stock valued at $1,080 issued as a performance bonus;

(C) to a service provider 29,455 shares of Common Stock in consideration of services rendered; and

(D) eight investors a total of 1,033,334 shares of Common Stock for aggregate consideration of $155,000.

(ii) In April 2004, the Company issued to two of the Debenture Holders $100,000 in principal amount of our three-year 7% Convertible Debentures, following such holders' waiver of the registration statement effectiveness condition.

All of the securities issued in the transactions described above were issued without registration under the Securities Act in reliance upon the exemption provided in Section 4(2) of the Securities Act or Regulation S under such Securities Act. Except with respect to securities sold under Regulation S, the recipients of securities in each such transaction acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates issued in all of the above transactions. The Company believes the recipients were all "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in its common stock. All recipients had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

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

(a) Exhibits:

31. Rule 13a-14(a) / 15d-14(a) Certification *

32. Section 1350 Certification *

(b) Reports on Form 8-K:

8-K filed on May 13, 2004 announcing that certain investors have waived the registration requirement

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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: JUNE 21, 2004 BY: /S/ BRAD KETCH

BRAD KETCH
PRESIDENT AND CHIEF EXECUTIVE OFFICER
(CHIEF EXECUTIVE AND PRINCIPAL FINANCIAL AND
ACCOUNTING OFFICER)

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