NEW VISUAL CORP
Form 10-K
January 29, 2003

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

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 31, 2002

OR

[ ] 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
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (619) 692-0333

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

Common Stock, $.001 Par Value
Series A Junior Participating Preferred Stock Purchase Rights

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(Title of Class)

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 [ ]

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of April 30, 2002, the last day of our second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $43,455,000.

As of January 23, 2003, the registrant had 52,647,063 shares of common stock outstanding.

Documents incorporated by reference: Part III of this Report is incorporated by reference to portions of the registrant's definitive proxy statement for the 2003 Annual Meeting of Shareholders.

PART I

ITEM 1. BUSINESS.

GENERAL

New Visual Corporation ("New Visual," the "Company," "we," "our" or "us") is developing advanced transmission technology to enable data to be transmitted across copper telephone wire at speeds and over distances that exceed those offered by industry-leading DSL technology providers. We intend to market this breakthrough technology to leading equipment makers in the telecommunications industry. Our technology is designed to dramatically increase the capacity of the copper telephone network, allowing telephone companies to provide enhanced video, data and voice services over the existing copper telecommunications infrastructure.

Through our NV Technology, Inc. subsidiary ("NV Technology"), we intend to design, develop, manufacture and license semiconductor products based upon our technology. We believe that products using this technology will have a significant advantage over existing broadband technologies, such as digital subscriber line ("DSL"), by providing faster transmission speed capability and by increasing the transmission distance capability.

During the 2000 fiscal year, we entered into a joint venture to produce a feature length, surfing adventure film for mainstream theatrical release. The film, entitled STEP INTO LIQUID, has been completed and is being shown to distributors.

Our executive offices are located at 5920 Friars Road, Suite 104, San Diego, California, and our telephone number at that address is (619) 692-0333.

OUR TELECOMMUNICATIONS BUSINESS

THE BROADBAND BOTTLENECK

The great, unfinished task of the telecom industry is to fill the "last mile" gap that prevents businesses and consumers from enjoying the benefit of the global, high-speed data backbone. The gap occurs where the low-speed capacity of local loop telephone networks meets the demand for high-speed services. Ninety-three percent of business buildings, for example, are unable to get high-speed data services because the facilities that underlay them are copper wires.

Filling the "last mile" gap with fiber is prohibitively expensive, so New Visual has developed a silicon-based strategy, best described as "Fiber

Avoidance" - if a wireline carrier can avoid deploying fiber optics in delivering fiber-like services, that carrier can increase its return on assets in a dramatic way. The value proposition of New Visual can best be summarized as a solution that will allow service providers to send digital information farther and faster, utilizing a low-cost implementation/deployment strategy that leverages the existing copper infrastructure.

New Visual's products will address critical gaps in the access portion of the network at attractive prices for telecom companies anxious to save money and increase profits. By utilizing the existing copper wire infrastructure, our products are intended to enable telecom companies to sell high-margin services and deliver bandwidth-hungry multimedia applications, such as video, voice, and data, which otherwise would be unavailable without extraordinary capital outlays.

WORLDWIDE DEMAND CONTINUES TO GROW

There are approximately one billion copper loops in the world today. Two hundred million are in the United States. Europe and Southeast Asia, with their high levels of teledensity, comprise most of the rest. A remarkable feature of these lines is that they are being retrofitted to support broadband data transmission at a quick pace. This retrofit activity is being performed by the world's telephone operating companies in response to demand from end-user businesses and residences for new services like high-speed data, virtual private network, voice over Internet protocol, Internet access, video conferencing, and cable company-like video delivery. These services typically yield higher margins to the telephone companies than do voice services. For this reason, we believe telephone companies will be receptive to offers from new semiconductor companies like New Visual.

We are developing layer-one, integrated circuit-based solutions to address the specific needs of both business class and residential markets. We are entering the market at a time when many companies are promoting solutions to enable broadband communications over the local loop, such as the various digital

subscriber line technologies. Still others are sponsoring alternative means for providing high-speed data communications such as wireless, satellite, fiber optic and cable modem technologies. We believe the worldwide market for high-speed communications is growing so quickly that all of these alternative access technologies can grow while we are also establishing our access technology.

NEW VISUAL'S "FIBER AVOIDANCE" STRATEGY

Wireline carriers around the world are experiencing high demand for data-intensive transmission services from enterprises. These services such as T1, Frame Relay, ATM Managed Services, Gigabit Ethernet, and other private line services, are delivered across T1, E1, T1 IMA, N X T1, DS3, E3 and other transmission protocols. While T1 and E1 can be used to reach the buildings that are off the fiber ring, these protocols are limited by copper pair's low speed, high costs, maintenance costs, and poor utilization.

Much has been made in recent years about the benefits of trenching fiber to every building, but the reality is that it is financially feasible for only the largest buildings. Telephone companies find that it is extremely expensive and impractical to replace the existing copper wire infrastructure with fiber optic technology to 90% of the offices. New fiber costs $500-$1000 per foot to install, and some municipalities have begun prohibiting new trenching, making it impossible to start new upgrade projects. Other solutions

to enable broadband communications, such as wireless, satellite, and cable modem network technologies, often suffer from poor performance, high deployment costs, and lack of mass marketability. Most importantly, these technologies fail to allow the telephone companies to leverage their existing investment in the copper plant.

New Visual's integrated circuits are being designed to increase the capacity and range of high-speed services on the existing copper network, enabling telephone network operators to increase their offering of services and reduce the cost of network upgrades. Worldwide, this network contains over 950 million copper lines, and currently delivers most of the world's telephone traffic and broadband access. If service providers can leverage this huge existing infrastructure, they can avoid the high costs and slow deployments associated with replacing the local loop with fiber.

NV TECHNOLOGY'S SOLUTION

We are developing an advanced transmission technology to enable data to be transmitted across copper telephone wire at faster speeds and over greater distances than is presently offered by leading DSL technology providers. Our technology, using the internal name Embarq(TM), offers significant improvements over existing technologies by optimizing the bandwidth used and taking advantage of dynamic changes in the available signal to noise ratio ("SNR"). Bandwidth is maximized by dynamically operating as close as possible to the available bandwidth, specifically by taking advantage of dynamic improvements in the SNR. Telephone wiring has a static, known function of attenuation versus frequency, while there are dynamic characteristics that present both significant and exploitable dynamic changes during transmission. The NV Technology solution takes advantage of these exploitable characteristics, resulting in dramatically improved achievable throughput.

We intend to develop core technology and chip level solutions to be licensed or sold to equipment makers that serve the following markets:

o SMALL-TO-MID-SIZED ENTERPRISES ("SMES"): defined as a direct connection between a small business (20-500 employees) and the telephone central office, including those businesses that currently subscribe for T1, Multiple T1, or DS3 services. Today, for example, local exchange carriers ("LECs") mostly serve their DS3 (45Mbps) customers with coaxial cables that are limited to 500 ft. in distance from the customer to the source of the DS3 signal (typically a fiber optic terminal). For a business in a building that is not on a fiber ring, the LEC must determine if the customer is over 500 ft. from an existing fiber optic terminal. If the distance is over 500 ft., the Telco must trench fiber to the building and place fiber optic terminals. This capital expense renders the DS3 line unprofitable for the first 18 months of service.

o MXU (MTU, MDU, MHU): defined to include multi-tenant units, multi-dwelling units, and multi-hotel units, in which a multiplexer unit in the building serves bandwidth to multiple users under the management of a service provider or the owner of the building. Today, LECs serve their densest customer locations with unshielded twisted pair copper (UTP) wire that typically runs directly back to the wire center. LECs have

tested a number of new technologies that would enable them to serve MDUs and MTUs with network elements placed in the

LEC-owned wiring closet in the building. A common downfall associated with all of these competing solutions is the placement of fiber optics.

- REMOTE TERMINAL/FEEDER: defined as the connection between a telephone central office and remote cabinets such as an RT, DSLAM, SLC, or DLC. Today, phone companies (i.e., Local Exchange Carriers or LECs) serve 30% of their UTP wires with digital loop carriers. These network elements communicate with the serving wire center, or central office, via digital trunks. All of the physical layer technologies for these trunks have drawbacks that frequently cause the LEC to spend scarce capital dollars needlessly.

- RESIDENTIAL: defined as the home broadband (high-speed access) consumers.

We believe that products based upon our technology will enable providers of broadband services to these markets to:

- ENHANCE THEIR OFFERING OF CONVERGENT SERVICES. We believe that deployment of our technology would permit the transmission of television, telephone and Internet access services over existing telephone lines to a large number of consumers.

- REACH MORE CUSTOMERS. The technology could permit service providers such as telephone companies and other DSL providers to reach more customers as a result of the extended range of their data transmissions. For example, VDSL services are presently unavailable to a large number of potential residential and business class consumers that reside more than 1,000 feet at 52Mbps or 13Mbps at 4,500 feet from the central office. Similarly, while standard ADSL services have a range of 12,000 feet-18,000 feet, capacity decreases the farther the end user is from the central office.

- LOWER COSTS BY USING EXISTING INFRASTRUCTURE. By deploying products built upon our technology, we believe that service providers will be able to reduce their technology investment and shorten the length of time it takes to recover initial capital outlay. Because our technology will increase the range of transmission over copper, providers could provide enhanced broadband services to larger markets, yet continue to utilize the existing copper infrastructure and existing technologies.

OUR BUSINESS STRATEGY

Our objective is to initially deploy our technology in the SME, MxU and Remote Terminal/Feeder business markets, and to subsequently expand into the Residential market. We believe business class markets offer the nearest revenue opportunity for commercial applications of our technology because:

- many businesses already have existing applications that require greater bandwidth,

- businesses have demonstrated the ability and willingness to pay for premium broadband services,

- spending by the business class markets significantly exceeds spending by the residential market, and is projected to continue to do so for the foreseeable future, and

- the return on investment for service providers is a more attractive model (e.g., lower cost of deployment and customer acquisition vs. revenue).

Residential broadband demand and DSL deployment is increasing rapidly, however, and we intend to deploy our technology in the Residential market as that market matures and new applications continue to drive demand for greater bandwidth.

We believe that the most prudent strategy for deploying our technology will involve licensing, equipment sales in the form of evaluation units for field trials, and integrated circuit ("IC") sales in the form of Application Specific Integrated Circuits ("ASICs"). We intend to ultimately produce a small, inexpensive chipset design that can be mass-produced with a high degree of economic reliability. We expect to benefit from the following revenue models:

- joint venture manufacturing relationships with equipment makers and/or chip makers;
- manufacture and sale of ICs; and/or
- licensing our IC "recipe" to chip makers.

Out of these models, we anticipate future revenues will take the form of license fees and royalty payments, development and support fees, and product sales of ASICs.

COMPETITION

The market for high-speed telecommunications products is highly competitive, and we expect that it will become increasingly competitive in the future. Our potential competitors consist of some of the largest, most successful domestic and international telecommunications companies, such as Broadcom, Metalink, GlobespanVirata, Intel, and Texas Instruments and other companies with well-established reputations in the broadband telecommunications industry, such as Infineon Technologies. These and our other potential competitors possess substantially greater name recognition, financial, sales and marketing, manufacturing, technical, personnel, and other resources than we have. These competitors may also have pre-existing relationships with our customers or potential customers. These competitors may compete effectively with us because in addition to the above-listed factors, they more quickly introduce new technologies, more rapidly or effectively address customer requirements or devote greater resources to the promotion and sale of their products than we do. Further, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so.

We believe we will be able to compete with these companies because our products will provide advantages not otherwise available, most notably the ability to significantly increase the speed and extend the range of broadband transmission over copper telephone wire. It is therefore possible that our products will enhance the broadband solutions of some of our competitors, and that these competitors could become our customers or business partners.

Although we believe we will be able to compete based on the special features of our products, our products will incorporate new concepts and may not be successful even if they are superior to those of our competitors. In addition to facing competition from providers of DSL-based products, our products will compete with products using other broadband technologies, such as cable modems, wireless, satellite and fiber optic telecommunications technology. Commercial acceptance of any one of these competing solutions could decrease demand for our

products.

We also face competition from new technologies that are currently under development that may result in new competitors entering the market with products that may make ours obsolete. We cannot entirely predict the competitive impact of these new technologies and competitors.

MANUFACTURING AND SUPPLIERS

We intend to contract with third party manufacturers to produce our products and will rely on third party suppliers to obtain the raw materials essential to our products' production. Manufacturing our products will be a complex process and we cannot assure you that we will not experience production problems or delays. Any interruption in operations could materially and adversely affect our business and operating results.

There may be a limited number of suppliers of some of the components necessary for the manufacture of our products. The reliance on a limited number of suppliers, particularly if such suppliers are foreign, poses several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing, quality and timely delivery of components. We cannot assure you that we will be able to obtain adequate supplies of raw materials. Certain key components of our products may involve long lead times, and in the event of an unanticipated increase in the demand for our products, we could be unable to manufacture certain products in a quantity sufficient to satisfy potential demand. If we cannot obtain adequate deliveries of key components, we may be unable to ship products on a timely basis. Delays in shipment could damage our relationships with customers and could harm our business and operating results.

GOVERNMENT REGULATION

The telecommunications industry is subject to extensive regulation by federal and state agencies, including the Federal Communications Commission, or FCC, and various state public utility and service commissions. There are some regulations at present that have been interpreted by our target customers as discouraging to the technical innovations that we are bringing to market, though we do not believe this to be the case. Further, regulations affecting the availability of broadband access services generally, the terms under which telecommunications service providers conduct their business, and the competitive environment among service providers, for example, could have a negative impact on our business.

OUR LEGACY FILM PRODUCTION BUSINESS

From 1996 through February 1999, our business focused on the production and distribution of 3-D films for special venue markets, such as theme parks, amusement parks, family entertainment centers and casinos. In April 2000, we entered into a joint venture with Dana Brown, Bruce Brown, and John-Paul Beeghly to produce a feature length, surfing adventure film for mainstream theatrical release. The film is titled "STEP INTO LIQUID" and was written, produced and directed by Dana Brown, Bruce Brown and John-Paul Beeghly. STEP INTO LIQUID continues the tradition of Academy Award-nominated director Bruce Brown's classic surf documentary film, ENDLESS SUMMER, which is the second highest grossing documentary film of all time, and Bruce and Dana Brown's mainstream sequel, ENDLESS SUMMER 2. Bruce Brown is one of our directors.

STEP INTO LIQUID features over 50 surfers from around the world, including long-board legends, short-board pros, aerial fanatics, tow-in heroics,

hydro-foil gliders, and supertanker sliders. The film tells tales from local shores to far away lands -- from Wisconsin to Rapa Nui, Costa Rica to Ireland, Texas to Hawaii, Vietnam to San Onofre, Western Australia to Tahiti, and Japan to the Cortez Banks. The film is complete and is currently being shown to distributors.

Under the terms of our joint venture, we agreed to finance the production of the film for up to $2,250,000. Upon its release, we will receive all revenues generated by the film until we recover 100% of our initial investment. After we recoup our investment in the venture, 50% of the net profits generated by the film will be paid to us.

OUR EMPLOYEES

We currently have four full-time employees and three part-time employees. We may, from time to time, supplement our regular work force as necessary with temporary and contract personnel. None of our employees are represented by a labor union. We believe we have a good relationship with our employees.

A NOTE ABOUT FORWARD-LOOKING STATEMENTS

This report (including the foregoing "Business" section and the section below entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations") contains forward-looking statements that involve risks and uncertainties. You should exercise extreme caution with respect to all forward looking statements contained in this report. Specifically, the following statements are forward-looking:

- statements regarding our overall strategy for developing and deploying our technology, including, without limitation our intended markets and future projects;

- statements regarding our research and development efforts;

- statements regarding the plans and objectives of our management for future operations, the production of products incorporating our technology and the size and nature of the costs we expect to incur and the people and services we may employ;

- statements regarding the future of broadband communications and opportunities therein, our competition or regulations that may affect us;

- statements regarding our ability to compete with third parties;

- any statements using the words "anticipate," "believe," "estimate," "expect," "intend," and similar words; and

- any statements other than historical fact.

We believe that it is important to communicate our future expectations to our shareholders. Forward-looking statements reflect the current view of management with respect to future events and are subject to numerous risks, uncertainties and assumptions, including, without limitation, the factors listed in "Risks Associated with Our Business." Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can

give no assurance that such expectations will prove to be correct. Should any one or more of these or other risks or uncertainties materialize or should any underlying assumptions prove incorrect, actual results are likely to vary materially from those described in this report. There can be no assurance that the projected results will occur, that these judgments or assumptions will prove correct or that unforeseen developments will not occur.

ITEM 2. PROPERTIES.

Our corporate headquarters are located at 5920 Friars Road, Suite 104, San Diego, California. This property is occupied under a five-year lease that commenced on February 1, 2000. We believe that this space will meet our needs for at least the next 12 months.

We also lease space for our wholly-owned subsidiary, NV Technology, Inc. in Pleasanton, California. This property is located at 1024 Serpentine Lane, Pleasanton, California and includes 2,251 square feet of research and development space, which was previously utilized by our consultants. This property is occupied under a lease that commenced on May 4, 2001 and which was amended on September 12, 2001. The lease expires on May 31, 2004. We are currently trying to find a subtenant for this property.

ITEM 3. LEGAL PROCEEDINGS.

On August 2, 2002, a lawsuit was filed in California Superior Court in Santa Clara County against New Visual Corporation and NV Technology, by Brad Lundahl (d/b/a Lundahl Engineering) alleging that we breached a contract for consulting services entered into between us and Mr. Lundahl in July 2000, by failing to pay Mr. Lundahl for his services as provided under the agreement. The lawsuit sought to compel arbitration based upon a provision mandating arbitration contained in the contract in question. We have agreed to arbitrate this matter. The amount in controversy is not stipulated in the lawsuit. We do not believe the outcome of this arbitration will have a material impact on our financial condition, results of operations, business or prospects.

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

There were no matters submitted to a vote of security holders during the three months ended October 31, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is currently traded on the Nasdaq Stock Market's over-the-counter bulletin board (the "OTC Bulletin Board") under the trading symbol "NVEI."

The following table shows the quarterly high and low bid prices and high and low ask prices for our common stock over the last three fiscal years, as reported on the OTC Bulletin Board. The prices represent quotations by dealers without adjustments for retail mark-ups, mark-downs or commission and may not represent actual transactions. All prices have been adjusted to give effect to the 1-for-4 reverse stock split we effected in June 2000.

BID

	HIGH	LOW	HIGH
NOVEMBER 2001 THROUGH OCTOBER 2002			
First Quarter	$ .73	$ .30	$ .80
Second Quarter	1.79	.33	1.85
Third Quarter	1.35	.74	1.43
Fourth Quarter	.90	.35	.94
NOVEMBER 2000 THROUGH OCTOBER 2001			
First Quarter	$ 7.38	$ 2.25	$ 7.63
Second Quarter	6.44	2.34	6.47
Third Quarter	3.62	.97	3.80
Fourth Quarter	1.50	.34	1.64
NOVEMBER 1999 THROUGH OCTOBER 2000			
First Quarter	$ 3.69	$ .63	$ 4.00
Second Quarter	30.88	2.69	31.00
Third Quarter	19.75	5.63	20.13
Fourth Quarter	13.56	6.88	13.69

HOLDERS

As of January 23, 2003 the approximate number of record holders of our Common Stock was 893, an undetermined number of which represent more than one individual participant in securities positions with us.

DIVIDENDS

We have not declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends on our capital stock in the foreseeable future. Payment of dividends on the common stock is within the discretion of our Board of Directors. The Board currently intends to retain future earnings, if any, to finance our business operations and fund the development and growth of our business. The declaration of dividends in the future will depend upon our earnings, capital requirements, financial condition, and other factors deemed relevant by the Board.

RECENT SALES OF UNREGISTERED SECURITIES

During our past two fiscal years, we sold unregistered securities and issued unregistered securities in consideration for services rendered and in connection with acquisitions as described in Note 12 to our audited Consolidated Financial Statements appearing in this report.

We have disclosed sales of unregistered securities in our prior filings with the Commission, including our quarterly reports for fiscal year 2002. During the fourth quarter of 2002, we issued the following unregistered securities:

In August 2002, we:

- sold 75,000 shares of common stock to one investor for total proceeds of $45,000; and
- issued an aggregate of $35,000 principal amount of convertible promissory notes to four investors, which may be converted into shares of our common stock at conversion prices ranging from $.70 to $.82.

In September 2002, we:

- sold an aggregate of 239,000 shares of common stock to two investors for total proceeds of $157,000;
- issued an aggregate of $176,000 principal amount of convertible promissory notes to seven investors, which notes are convertible into shares of our common stock at conversion prices ranging from $.42 to $.70;

- issued an aggregate of 104,484 shares of common stock upon conversion of convertible promissory notes held by two investors, resulting in the cancellation of $69,000 in principal and interest that would have been outstanding under the notes;
- issued 150,000 shares of common stock valued at $96,000 for consulting services; and
- issued 50,000 shares of common stock to an executive officer in lieu of $30,000 of compensation owed to the officer.

In October 2002, we:

- issued an aggregate of $76,500 principal amount of convertible promissory notes to four investors, which notes are convertible into shares of our common stock at a conversion price of $.42; and
- issued 151,786 shares of common stock upon conversion of two convertible promissory notes held by one investor, resulting in the cancellation of $75,000 in principal and interest that would have been outstanding under the notes.

Following the year ended October 31, 2002, we have issued the following unregistered securities:

In November 2002, we:

- issued an aggregate of $85,000 principal amount of convertible promissory notes to two investors, which notes are convertible into shares of our common stock at a conversion price of $.39;
- issued 96,612 shares of common stock upon conversion of convertible promissory notes to held by three investors, resulting in the cancellation of $48,000 in principal and interest that would have been outstanding under the notes;
- sold an aggregate of 166,667 shares of common stock to five investors for total proceeds of $42,500;
- issued 32,258 shares of common stock to an executive officer in lieu of $20,000 in compensation owed to the officer;
- issued 300,000 shares of common stock to a company valued at $144,000 pursuant to a contractual arrangement; and
- sold 183,179 shares of common stock to a "non-US Person" (as such term is defined in Regulation S of the Securities Act of 1933) for total proceeds of $27,164.

In December 2002, we:

- o issued 379,121 shares of common stock upon conversion of two convertible promissory notes held by one investor, resulting in the cancellation of $150,000 in principal and interest that would have been outstanding under the notes;

- o sold an aggregate of 367,135 shares of common stock to 13 investors for total proceeds of $98,740;

- o issued 56,452 shares of common stock to a director and former officer of the Company in lieu of $35,000 in compensation owed to the former officer;

- o issued 25,000 shares of common stock valued at $15,750 to an individual for past services rendered to the Company; and

- o issued 1,180,454 shares of common stock to a "non-US Person" (as such term is defined in Regulation S under the Securities Act of 1933) for total proceeds of $181,038.

In January 2003, we:

- o sold an aggregate of 1,862,878 shares of common stock to 10 investors for total proceeds of $467,505, of which $337,535 were received in 2002;

- o issued 46,875 shares of common stock to our vice chairman in lieu of $30,000 of deferred compensation owed to the director; and

- o sold 638,683 shares of common stock to a "non-US Person" (as such term is defined in Regulation S under the Securities Act of 1933) for total proceeds of $109,573.

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. SELECTED FINANCIAL DATA.

The selected consolidated financial data set forth below for the five years in the period ended October 31, 2002 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with the audited consolidated financial statements and notes thereto.

	YEAR ENDED OCTOBER 31,			
	2002	2001	2000	
STATEMENT OF OPERATIONS DATA:				
Revenues	$ --	$ --	$ 12,200	$
Cost of sales	--	--	21,403	
Selling, general and administrative expenses	3,585,253	4,086,795	2,041,942	
Total operating expenses	7,313,472	9,492,584	12,301,869	
Net loss	(9,467,123)	(11,875,915)	(12,725,316)	
Basic and diluted net loss per share	(.23)	(.46)	(.59)	
Weighted average number of common shares outstanding	41,861,295	25,988,990	21,579,916	
BALANCE SHEET DATA AT PERIOD-END:				
Current assets	$ 323,259	$ 560,109	$ 247,024	$
Property and equipment, net	64,533	284,896	393,787	
Projects under development	2,178,831	1,912,650	638,707	
Total assets	8,332,302	2,791,297	1,432,662	
Accounts payable and accrued expenses	2,247,698	1,435,024	446,921	
Total liabilities	4,907,605	2,306,910	1,203,807	
Redeemable Series B Preferred Stock	3,192,000	--	--	
Total stockholders' equity (deficit)	232,697	484,387	228,855	

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The following discussion should be read in conjunction with our Financial Statements appearing on pages F-1 through F-46 of this report.

10

RESULTS OF OPERATION

COMPARISON OF THE YEAR ENDED OCTOBER 31, 2002 AND THE YEAR ENDED OCTOBER 31, 2001

REVENUES. Revenues for the fiscal years ended October 31, 2002 and October 31, 2001 were $0.

OPERATING EXPENSES. Operating expenses included research and development expenses, compensatory element of stock issuances, selling, general and administrative expenses and the costs of settlement of litigation. Total operating expenses decreased to approximately $7,313,000 for fiscal 2002 from approximately $9,493,000 for fiscal 2001. The decrease was principally related to reductions in general and administrative expenses. Compensatory element of stock issuances for general and administrative expenses decreased from approximately $3,559,000 to approximately $2,459,000 and selling, general and administrative expenses decreased from approximately $4,087,000 to approximately $3,556,000 as general and administrative costs associated with our Pleasanton office were significantly reduced in the fourth quarter of fiscal 2001. Research and development expenses increased to approximately $1,299,000 in fiscal 2002 from approximately $839,000 in fiscal 2001. During the second quarter of the 2001 fiscal period, 250,000 shares of common stock valued at $1,000,000 were issued in connection with certain disputes arising from a non-consummated merger between New Visual Corporation and Astounding.com, Inc. There was no similar

event during the 2002 fiscal period.

OTHER EXPENSES. Other expenses included amortization of unearned financing costs and interest expense. Total other expenses decreased from approximately $2,383,000 in fiscal 2001 to approximately $2,154,000 in fiscal 2002. Interest expense increased from approximately $337,000 in fiscal 2001 to approximately $1,036,000 in fiscal 2002, primarily resulting from the interest component of convertible notes payable issued during the fiscal year ended October 31, 2002. In addition, several of these convertible notes were convertible into common stock at a conversion rate lower than the market price of our common stock at the time of issuance of the notes. As a result, there was an additional charge to amortization of unearned financing costs of approximately $654,000. The increases in these expenses were offset by a reduction in the costs of amortization of unearned financing costs of approximately $322,000 in connection with a long-term debt financing arrangement. During the year ended October, 31, 2001 the Company paid down long-term debt in connection with this financing arrangement amounting to $500,000.

NET LOSS. The Company's net loss was approximately $9,467,000, or $0.23 per common share, for the fiscal year ended October 31, 2002, a decrease from the net loss of approximately $11,876,000, or $0.46 per common share, for the fiscal year ended October 31, 2001.

COMPARISON OF THE YEAR ENDED OCTOBER 31, 2001 AND THE YEAR ENDED OCTOBER 31, 2000

REVENUES. Revenues for the fiscal year ended October 31, 2001 were $0. Revenues for the fiscal year ended October 31, 2000 were approximately $12,200, and were derived from the Company's Impact Multimedia, Inc. subsidiary.

OPERATING EXPENSES. Operating expenses included the compensatory element of stock issuances, research and development expenses, the acquisition of in-process research and development expenses, the write-down of project costs, selling, general and administrative expenses, and the costs of litigation settlement. Total operating expenses decreased to approximately $9,493,000 for fiscal 2001, from approximately $12,302,000 for fiscal 2000. The compensatory element of stock issuances increased from approximately $3,259,000 in fiscal 2000 to approximately $3,559,000 in fiscal 2001. Selling, general and administrative expenses increased from approximately $2,042,000 in fiscal 2000 to approximately $4,087,000 in fiscal 2001. Both of these increases resulted from significant increases in technology development activities and increases in administrative infrastructure largely associated with the acquisitions of New Wheel Technology, Inc. and Impact Multimedia, Inc. during fiscal 2000. In fiscal 2000, the Company realized a $6,000,000 charge to earnings for acquired in-process research and development costs connected with its acquisition of New Wheel Technology, Inc. During the second quarter of the 2001 fiscal period, 250,000 shares of common stock valued at $1,000,000 were issued in connection with certain disputes arising from a non-consummated merger between New Visual Corporation and Astounding.com, Inc. There was no similar event during the 2000 fiscal period.

The acquired in-process research and development costs in fiscal 2000 were associated with the acquisitions of New Wheel and Impact Multimedia, and represent the value of the common stock issued in connection with the

acquisitions. The acquisition of Impact Multimedia was in exchange for 12,500 shares of common stock valued at $50,000. The acquisition of New Wheel included 3,000,000 shares of restricted common stock, valued at $6,000,000.

OTHER EXPENSES. Other expenses increased from approximately $436,000 in fiscal 2000 to approximately $2,383,000 in fiscal 2001. In fiscal 2000 other expenses included interest expense of approximately $19,000 and amortization of unearned financing costs of approximately $417,000 in connection with a long-term debt financing arrangement. In fiscal 2001, interest expense increased to approximately $337,000 due to increased borrowing activity and amortization of unearned financing costs increased to approximately $2,046,000 as a full year of amortization was incurred.

NET LOSS. The Company's net loss was approximately $11,876,000, or $0.46 per common share, for the fiscal year ended October 31, 2001, a decrease from the net loss of approximately $12,725,000, or $0.59 per common share, for the fiscal year ended October 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was approximately $3,986,000 in fiscal 2002, $4,281,000 in fiscal 2001 and $2,901,000, in fiscal 2000. Cash balances totaled approximately $312,000 as of October 31, 2002 and $295,000 as of October 31, 2001.

Operations have been financed principally through sales of common stock, the exercise of warrants and options to purchase common stock, the issuance of convertible notes payable and notes payable. Net proceeds from financing activities amounted to approximately $5,201,000 for fiscal 2002, $5,642,000 for fiscal 2001 and $4,071,000 for fiscal 2000. Net proceeds from convertible notes payable amounted to approximately $1,795,000 in fiscal 2002, $615,000 in fiscal 2001 and $0 in fiscal 2000. Proceeds from the exercise of options and warrants amounted to approximately $728,000 in fiscal 2002, $100,000 in fiscal 2001 and $165,000 in fiscal 2000. The Company received proceeds from the sale of common stock amounting to approximately $2,224,000 in fiscal 2002, $5,427,000 in fiscal 2001 and $3,149,000 in fiscal 2000. Notes payable were issued amounting to approximately $700,000, $0 and $757,000 in fiscal 2002, fiscal 2001 and fiscal 2000, respectively. Notes payable amounting to approximately $500,000 were repaid in fiscal 2001.

Stock was issued in payment of expenses amounting to approximately $2,459,000 in fiscal 2002, $3,559,000 in fiscal 2001 and $3,259,000 in fiscal 2000. Stock was issued in settlement of litigation in the amount of $1,000,000 during the fiscal year ended October 31, 2001.

In April 2000, we entered into a joint venture production agreement to produce a feature length film for theatrical distribution. Under the agreement, we are providing the funding for the production in the amount of up to $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. As of October 31, 2002, we had funded approximately $2,179,000 of the production costs towards this project.

Research and development expenses totaled approximately $1,299,000 in fiscal 2002, $839,000 in fiscal 2001 and $815,000 in fiscal 2000. During the fiscal year ended October 31, 2002 the Company also paid approximately $825,000 in technology development fees to Adaptive Networks that were capitalized.

During the fiscal years ended October 31, 2002 and October 31, 2001, we issued convertible notes payable totaling approximately $1,795,000 and $615,000, respectively. We agreed to pay the principal and interest in an amount equal to 50% of the principal if certain milestones are reached from the distribution of the feature length film currently in production. Because several of the notes were convertible into common stock at a conversion rate lower than the market price at the time of issuance of the notes, additional expense was recorded in

the approximate amount of $654,000. The notes are convertible at any time, in whole or in part, into shares of common stock at conversion prices ranging from $0.40 to $1.00 per share. During the fiscal year ended October 31, 2002, several convertible notes were converted into 4,497,967 shares of our common stock, resulting in the cancellation of $2,183,626 in principal and interest that would have been outstanding under the notes.

In June 2000, we entered into five long-term credit facilities, pursuant to which we borrowed $750,000. We repaid $500,000 of these borrowings during fiscal 2001. The remaining principal and interest at 6% per year will be due in June 2003.

In April 2002, we entered into a license and development agreement with Adaptive Networks, Inc. which included development services relating to our FPGA-based prototype. We agreed to pay Adaptive an aggregate of $1,559,000 for these services. As of October 31, 2002, the remaining balance due to Adaptive is $734,000 under the license and development agreement.

In April 2002, in consideration of the grant of a technology license from Adaptive Networks, Inc., we assumed certain debt obligations of Adaptive to Zaiq Technologies, Inc. ("Zaiq"). We then issued 3,192 shares of Series B Preferred Stock, valued at $3,192,000, with a liquidation preference of $1,000 per share, and paid $250,000 in cash to Zaiq in satisfaction of the Zaiq debt. We must offer to redeem all of the Series B Preferred Stock if we close a corporate transaction resulting in a change of control or a financing transaction of at least $15 million. If we close a financing transaction of at least $3 million but less than $15 million, we must offer to redeem a portion of the Series B Preferred Stock based on a fraction, the numerator of which is the cash proceeds we receive in the financing transaction and the denominator of which is $15 million. We are also required to offer to redeem the outstanding Series B Preferred Stock in eight equal quarterly payments beginning March 31, 2005 and ending December 31, 2006.

In July 2002, we borrowed $500,000 from the Charles R. Cono Trust. These borrowings are unsecured and bear interest at 10% per annum. Principal and accrued interest are payable three days after we receive a written demand for payment.

In December 2002, we entered into a separation agreement with Thomas Cooper, our former President and Chief Executive Officer, terminating his employment with the Company. Pursuant to the separation agreement, we agreed to pay Mr. Cooper a total of $57,692 by March 31, 2003. This payment represents salary that Mr. Cooper agreed to defer between August 1, 2002 and October 31, 2002.

Management believes funds on hand and available sources of financing will enable us to meet our liquidity needs for at least the next three months. However, funding for our operations has become more difficult to secure and more expensive than in prior periods due to the current economic and stock market climate, our recent stock price and market volatility, and general market conditions in the semiconductor and telecommunications industries. Management is presently taking steps to reduce monthly cash outlays through arrangements with vendors to accept longer payment terms and reductions of recurring expenses, when possible, including potential staff and management changes. Our management team also agreed in August to temporarily defer a portion of executive salaries in order to reduce monthly cash expenditures while we continue to pursue additional financing. As of October 31, 2002, accrued management salaries totaled approximately $184,000. However, additional cash must be raised in order to continue to meet liquidity needs and satisfy the Company's proposed business

plan. Management is presently investigating potential financing transactions that it believes can provide additional cash for operations and lead to profitability in both the short and long-term. Management also intends to attempt to raise funds through private sales of common stock and borrowings. Although management believes these efforts will enable us to meet liquidity needs in the future, there can be no assurance that these efforts will be successful.

GOING CONCERN CONSIDERATION

We have continued losses in each of our years of operation, negative cash flow and liquidity problems. These conditions raise substantial doubt about our 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 we be unable to continue as a going concern.

We have been able to continue based upon our receipt of funds from the issuance of equity securities and borrowings, and by acquiring assets or paying expenses by issuing stock. Our continued existence is dependent upon our continued ability to raise funds through the issuance of our securities or borrowings, and our 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. Although management believes, based on the fact that it raised approximately $10,800,000 through sales of common stock and $3,867,000 from borrowings from November 1, 1999 through October 31, 2002, that it will be able to secure suitable additional financing for the company's operations, there can be no guarantee that such financing will continue to be available on reasonable terms, or at all.

13

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. Certain provisions shall also be applied to acquisitions initiated subsequent to June 30, 2001. SFAS 142 supercedes APB Opinion No. 17, "Intangible Assets," and requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. Adoption of SFAS No. 142, which occurred November 1, 2001 did not have material effect on the Company's financial position or results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and certain provisions of APB Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of SFAS 144 are effective for fiscal years beginning after

December 15, 2001. Adoption of SFAS No. 144, which occurred November 1, 2001 did not have a material effect on the Company's financial position or results of operations.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of SFAS Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent that meet the criteria for classification as an extraordinary item. The Company is required to adopt SFAS No. 145 no later than the first quarter of fiscal 2003, although early adoption is allowed. The Company has not yet evaluated the impact from SFAS No. 145 on its financial position and results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring.)" SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption of this statement to have a material effect on its financial statements.

On December 31, 2002, the SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Statement 148 amends SFAS Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. Statement 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the statement does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123, or the intrinsic value method of APB Opinion 25. The Company will continue to account for stock-based compensation according to APB 25, while its adoption of SFAS No. 148 requires the Company to provide prominent disclosures about the effect of SFAS No. 123 on reported income and will require the Company to disclose these effects in the interim financial statements as well.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002 and adoption of the disclosure requirements are effective for the Company during the first quarter ending January 31, 2003. The Company does not expect the adoption of FIN 45 will have a significant impact on its consolidated financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of APB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its results of operations and financial condition.

RISKS ASSOCIATED WITH OUR BUSINESS

THE GENERAL ECONOMIC SLOWDOWN, AND SLOWDOWN IN SPENDING IN THE TELECOMMUNICATIONS INDUSTRY SPECIFICALLY, MAY ADVERSELY AFFECT OUR BUSINESS AND OPERATING RESULTS.

The worldwide telecommunications industry has experienced and may continue to experience further reductions in component inventory levels and equipment production volumes and delays in the build-out of new infrastructure. This slowdown has resulted in a decrease in spending on data equipment by service providers and lower-than-expected sales volume for data equipment manufacturers. If any of these trends continue, it could result in lower than expected demand for our products under development and could have a material adverse effect on our revenues and results of operations generally and cause the market price of our common stock to decline.

OUR OPERATING RESULTS MAY VARY SIGNIFICANTLY DUE TO THE CYCLICALITY OF THE SEMICONDUCTOR INDUSTRY. ANY SUCH VARIATIONS COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

We operate in the semiconductor industry, which is cyclical and subject to rapid technological change. Recently, the semiconductor industry has experienced significant downturns characterized by diminished product demand, accelerated erosion of prices and excess production capacity. The current downturn and future downturns in the semiconductor industry may be severe and prolonged. Future downturns in the semiconductor industry, or any failure of this industry to fully recover from its recent downturn, could seriously impact our revenues and harm our business, financial condition and results of operations. This industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products in future periods. Accordingly, our quarterly results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause our stock price to decline.

BECAUSE WE HAVE NOT YET BEGUN TO SELL OUR PRODUCTS, WE CANNOT BE SURE THAT WE CAN SUCCESSFULLY IMPLEMENT OUR BUSINESS STRATEGY.

We have not yet begun to sell the products we are developing, and therefore have not generated any revenues from our fabless semiconductor business. As a result, we have no historical financial data that can be used in evaluating our business prospects and in projecting future operating results. For example, we cannot forecast operating expenses based on our historical results, and we are instead required to forecast expenses based in part on future revenue projections. In addition, our ability to accurately forecast our

revenue going forward is limited.

You must consider our prospects in light of the risks, expenses and difficulties we might encounter because we are at an early stage of development in a new and rapidly evolving market. Many of these risks are described under the sub-headings below. We may not successfully address any or all of these risks and our business strategy may not be successful.

WE HAVE A HISTORY OF LOSSES AND AN ACCUMULATED DEFICIT.

Since inception, we have incurred significant operating losses. We incurred operating losses of $7,313,472, $9,492,584 and $12,289,669 for the years ended October 31, 2002, 2001 and 2000, respectively. As of October 31, 2002, we had an accumulated deficit of $46,368,387. We cannot assure you that we will achieve or sustain profitability or that our operating losses will not increase in the future. If we do achieve profitability, we cannot be certain that we can sustain or increase profitability on a quarterly or annual basis in the future. We expect to expend substantial financial resources on research and development, engineering, manufacturing, marketing, sales and administration as we continue to develop and begin to deploy our products. These expenditures will necessarily precede the realization of substantial revenues from sales of our products, which may result in future operating losses.

WE WILL NEED ADDITIONAL CAPITAL FINANCING IN THE FUTURE.

We anticipate that our available sources of financing will be sufficient to fund our current level of operations and capital requirements for at least the next three months. Thereafter, implementation of our business plan, or acceleration of such implementation, is likely to require funds not currently available to us. We also may be required to seek additional financing in the future to respond to increased expenses or shortfalls in anticipated revenues, accelerate product development and deployment, respond to competitive pressures, develop new or enhanced products, or take advantage of unanticipated acquisition opportunities. We cannot be certain we will be able to find such additional financing on reasonable terms, or at all. If we are unable to obtain additional financing when needed, we could be required to modify our business plan in accordance with the extent of available financing. We also may not be able to accelerate the development and deployment of our products, respond to competitive pressures, develop or enhance our products or take advantage of unanticipated acquisition opportunities.

BECAUSE WE WILL DEPEND ON THIRD PARTIES TO MANUFACTURE, ASSEMBLE AND TEST OUR PRODUCTS, WE MAY EXPERIENCE DELAYS IN RECEIVING SEMICONDUCTOR DEVICES.

We do not own or operate a semiconductor fabrication facility. Rather, our semiconductor devices will be manufactured at independent foundries. We intend to rely solely on third-party foundries and other specialist suppliers for all of our manufacturing, assembly and testing requirements. However, these parties may not be obligated to supply products to us for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order that has been accepted by one of them. As a result, we will not directly control semiconductor delivery schedules, which could lead to product shortages, poor quality and increases in the costs of our products. In addition, we may experience delays in receiving semiconductor devices from foundries due to foundry scheduling and process problems. We cannot be sure that we will be able to obtain semiconductors within the time frames and in the volumes required by us at an affordable cost or at all. Any disruption in the availability of semiconductors or any problems associated with the delivery,

quality or cost of the fabrication assembly and testing of our products could significantly hinder our ability to deliver our products to our customers and may result in a decrease in sales of our products.

WE MAY INCUR SUBSTANTIAL EXPENSES DEVELOPING PRODUCTS BEFORE WE EARN ASSOCIATED NET REVENUES AND MAY NOT ULTIMATELY SELL A LARGE VOLUME OF OUR PRODUCTS.

We are developing products based on forecasts of demand and will incur substantial product development expenditures prior to generating associated net revenues. We will receive limited orders for products during the period that potential customers test and evaluate our products. This test and evaluation period typically lasts from three to six months or longer, and volume production of the equipment manufacturer's product that incorporates our products typically would not begin until this test and evaluation period has been completed. As a result, a significant period of time may lapse between our product development and sales efforts and the realization of revenues from volume ordering of products by customers. In addition, achieving a design win with a customer does not necessarily mean that this customer will order large volumes of our products. A design win is not a binding commitment by a customer to purchase products. Rather, it is a decision by a customer to use our products in the design process of that customer's products. A customer can choose at any time to discontinue using our products in that customer's designs or product development efforts. Even if our products are chosen to be incorporated into a customer's products, we may still not realize significant net revenues from that customer if that customer's products are not commercially successful.

WE MAY BE UNABLE TO ADEQUATELY PROTECT OUR PROPRIETARY RIGHTS OR MAY BE SUED BY THIRD PARTIES FOR INFRINGEMENT OF THEIR PROPRIETARY RIGHTS.

Our success depends significantly on our ability to obtain and maintain patent, trademark and copyright protection for our intellectual property, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. If we are not adequately protected, our competitors could use the intellectual property that we have developed to enhance their products and services, which could harm our business.

We will rely on patent protection, as well as a combination of copyright and trademark laws, trade secrets, confidentiality provisions and other contractual provisions, to protect our proprietary rights, but these legal means afford only limited protection. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries may not protect our proprietary rights as fully as do the laws of the United States. If we litigated to enforce our rights, it would be expensive, divert management resources and may not be adequate to protect our intellectual property rights.

The telecommunications industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of trade secret, copyright or patent infringement. We may inadvertently infringe a patent of which we are unaware. In addition, because patent applications can take many years to issue, there may be a patent application now pending of which we are unaware that will cause us to be infringing when it is issued in the future. Although we are not currently involved in any intellectual property litigation, we may be a party to litigation in the future to protect our intellectual property or as a result of our alleged infringement of another's intellectual property, forcing us to do one or more of the following:

o Cease selling, incorporating or using products or services

that incorporate the challenged intellectual property;

- Obtain from the holder of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms; or
- Redesign those products or services that incorporate such technology.

A successful claim of infringement against us, and our failure to license the same or similar technology, could adversely effect our business, asset value or stock value. Infringement claims, with or without merit, would be expensive to litigate or settle, and would divert management resources.

OUR MARKET IS HIGHLY COMPETITIVE AND OUR PRODUCTS, TECHNOLOGY AND BUSINESS MAY NOT BE ABLE TO COMPETE EFFECTIVELY WITH OTHER PRODUCTS OR TECHNOLOGIES.

The markets for semiconductors and other high-speed telecommunications products are highly competitive, and we expect that they will become increasingly competitive in the future. Our potential competitors operate their own fabrication facilities, have longer operating histories and possess substantially greater name recognition, financial, sales and marketing, manufacturing, technical, personnel, and other resources than we have. As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the promotion and sale of their products. We will compete with numerous companies with well-established reputations in the broadband telecommunications industry, such as GlobespanVirata, Alcatel, PMC-Sierra, Texas Instruments, Infineon Technologies, Motorola and Broadcom. In all of our target markets, we also may face competition from newly established competitors, suppliers of products based on new or emerging technologies, and customers who choose to develop their own silicon solutions. We also expect to encounter further consolidation in markets in which we compete. Although we believe we will be able to compete based on the special features of our products, our products will incorporate new concepts and may not be successful even if they are superior to those of our competitors.

In addition to facing competition from the above-mentioned suppliers, our products will compete with products using other broadband technologies, such as cable modems, wireless, satellite and fiber optic telecommunications technology. Commercial acceptance of any one of these competing solutions, or new technologies, could decrease demand for our products. We cannot assure you that we will be able to compete successfully or that competitive pressures will not materially and adversely affect our business, financial condition and results of operations.

WE MUST KEEP PACE WITH RAPID TECHNOLOGICAL CHANGES IN THE SEMICONDUCTOR INDUSTRY AND BROADBAND COMMUNICATIONS MARKET IN ORDER TO REMAIN COMPETITIVE.

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards. We will also need to develop and introduce new and enhanced products to meet our customers' changing demands. The semiconductor industry and broadband communications market are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and short product life cycles. In addition, this industry and market continues to undergo rapid growth and consolidation. A continued slowdown in the semiconductor industry or other broadband communications markets could materially and adversely affect our business, financial condition and results of operations. Our success will also depend on the ability of our future customers to develop new products and enhance existing products for the broadband communications markets and to introduce and promote those products successfully. The broadband communications markets may not continue to develop

to the extent or in the timeframes that we anticipate. If new markets do not develop as we anticipate, or if upon their deployment our products do not gain widespread acceptance in these markets, our business, financial condition and results of operations could be materially and adversely affected.

BECAUSE OUR BUSINESS IS DEPENDENT UPON THE BROAD DEPLOYMENT OF DATA SERVICES BY TELECOMMUNICATIONS SERVICE PROVIDERS, WE MAY NOT BE ABLE TO GENERATE SUBSTANTIAL SALES OF OUR PRODUCTS IF SUCH DEPLOYMENT DOES NOT OCCUR.

Our products will be incorporated in equipment that is targeted at end-users of data services offered by wireline telecommunications carriers. Consequently, the success of our products depends upon the decision by telecommunications service providers to broadly deploy data technologies and the timing of such deployment. If service providers do not offer data services on a timely basis, or if there are technical difficulties with the deployment of these services, sales of our products would be adversely affected, which would have a negative effect on our results of operations. Factors that may impact data deployment include:

- a prolonged approval process, including laboratory tests, technical trials, marketing trials, initial commercial deployment and full commercial deployment;
- the development of a viable business model for data services, including the capability to market, sell, install and maintain data services;
- cost constraints, such as installation costs and space and power requirements at the telecommunications service provider's central office;
- evolving industry standards; and
- government regulation.

THE COMPLEXITY OF OUR PRODUCTS COULD RESULT IN UNFORESEEN DELAYS OR EXPENSE AND IN UNDETECTED DEFECTS, WHICH COULD ADVERSELY AFFECT THE MARKET ACCEPTANCE OF NEW PRODUCTS AND DAMAGE OUR REPUTATION WITH PROSPECTIVE CUSTOMERS.

Highly complex products such as the semiconductors that we will offer frequently contain defects and bugs when they are first introduced or as new versions are released. If our products contain defects, or have reliability, quality or compatibility problems, our reputation may be damaged and customers may be reluctant to buy our semiconductors, which could materially and adversely affect our ability to retain existing customers or attract new customers. In addition, these defects could interrupt or delay sales to our customers. In order to alleviate these problems, we may have to invest significant capital and other resources. Although our products will be tested by our suppliers, our customers and ourselves, it is possible that these tests will fail to uncover defects. If any of these problems are not found until after we have commenced commercial production of our products, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. In addition, these problems may divert our technical and other resources from other development efforts. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product, and we could lose credibility with our prospective customers.

IF LEADING EQUIPMENT MANUFACTURERS DO NOT INCORPORATE OUR PRODUCTS INTO

SUCCESSFUL PRODUCTS, SALES OF OUR PRODUCTS WILL SIGNIFICANTLY DECLINE.

Our products will not be sold directly to the end-user; rather, they will be components of other products. As a result, we must rely upon equipment manufacturers to design our products into their equipment. We must further rely on this equipment to be successful. If equipment that incorporates our products is not accepted in the marketplace, we may not achieve adequate sales volume of products, which would have a negative effect on our results of operations. Accordingly, we must correctly anticipate the price, performance and functionality requirements of these data equipment manufacturers. We must also successfully develop products that meet these requirements and make such products available on a timely basis and in sufficient quantities. Further, if there is consolidation in the data equipment manufacturing industry, or if a small number of data equipment manufacturers otherwise dominate the market for data equipment, then our success will depend upon our ability to establish and maintain relationships with these market leaders. If we do not anticipate trends in the market for products enabling the digital transmission of data, voice and video to homes and business enterprises over existing copper wire telephone lines and meet the requirements of equipment manufacturers, or if we do not successfully establish and maintain relationships with leading data equipment manufacturers, then our business, financial condition and results of operations will be seriously harmed.

WE CANNOT PREDICT THE EFFECT FUTURE SALES OF OUR COMMON STOCK WILL HAVE ON THE MARKET PRICE OF OUR COMMON STOCK.

We cannot predict the effect, if any, that future sales of our common stock will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of common stock or the perception that such sales could occur may adversely affect prevailing market prices for our common stock.

OUR STOCK PRICE MAY BE VOLATILE.

The market price of our common stock will likely fluctuate significantly in response to the following factors, some of which are beyond our control:

- Variations in our quarterly operating results;
- Changes in financial estimates of our revenues and operating results by securities analysts;
- Changes in market valuations of telecommunications equipment companies;
- Announcements by us of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Additions or departures of key personnel;
- Future sales of our common stock;
- Stock market price and volume fluctuations attributable to inconsistent trading volume levels of our stock;
- Commencement of or involvement in litigation; and
- Announcements by us or our competitors of technological

innovations or new products.

In addition, the equity markets have experienced volatility that has particularly effected the market prices of equity securities issued by high technology companies and that often has been unrelated or disproportionate to the operating results of those companies. These broad market fluctuations may adversely effect the market price of our common stock.

WE DO NOT ANTICIPATE PAYING ANY DIVIDENDS ON OUR COMMON STOCK.

We have not paid any dividends on our common stock since our inception and do not anticipate paying any dividends on our common stock in the foreseeable future. Instead, we intend to retain any future earnings for use in the operation and expansion of our business.

BECAUSE WE ARE SUBJECT TO SEC REGULATIONS RELATING TO LOW-PRICED STOCKS, THE MARKET FOR OUR COMMON STOCK COULD BE ADVERSELY EFFECTED.

The Securities and Exchange Commission has adopted regulations concerning low-priced (or "penny") stocks. The regulations generally define "penny stock" to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. If our shares continue to be offered at a market price less than $5.00 per share, and do not qualify for any exemption from the penny stock regulations, our shares will continue to be subject to these additional regulations relating to low-priced stocks.

The penny stock regulations require that broker-dealers who recommend penny stocks to persons other than institutional accredited investors make a special suitability determination for the purchaser, receive the purchaser's written agreement to the transaction prior to the sale and provide the purchaser with risk disclosure documents that identify risks associated with investing in penny stocks. Furthermore, the broker-dealer must obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before effecting a transaction in penny stock. These requirements have historically resulted in reducing the level of trading activity in securities that become subject to the penny stock rules.

19

The additional burdens imposed upon broker-dealers by these penny stock requirements may discourage broker-dealers from effecting transactions in the common stock, which could severely limit the market liquidity of our common stock and our shareholders' ability to sell our common stock in the secondary market.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not currently have any indebtedness or income from foreign sources that would subject us to market risk. We do not engage in commodity futures trading or hedging activities and do not participate in derivative financial instrument transactions for trading or other speculative purposes. In addition, we do not engage in interest rate swap transactions that could expose us to market risk. However, to the extent that changes in interest rates and currency exchange rates affect general economic conditions, we may be affected by such changes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our audited Consolidated Balance Sheets as of October 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for the years ended October 31, 2002, 2001 and 2000

are included in this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated by reference our definitive proxy statement for our 2003 annual meeting of shareholders (the "2003 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference to our 2003 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Incorporated by reference to our 2003 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference to our 2003 Proxy Statement.

ITEM 14. CONTROLS AND PROCEDURES.

Incorporated by reference to our 2003 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)

1. Index to Financial Statements and financial statement schedules, filed as part of this report:

INDEPENDENT AUDITORS' REPORT	F-1
CONSOLIDATED BALANCE SHEETS At October 31, 2002 and 2001	F-2
CONSOLIDATED STATEMENTS OF OPERATIONS For the Years Ended October 31, 2002, 2001 and 2000 For the Period from November 1, 1999 to October 31, 2002	F-3
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY) For the Years Ended October 31, 2000, 2001 and 2002	F-4 to F-11
CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended October 31, 2002, 2001 and 2000 For the Period from November 1, 1999 to October 31, 2002	F-12 to F-13
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-14 to F-46

2. None.

3. The management contracts or compensatory plans or arrangements are followed an asterisk (*) in the list of Exhibits found in part (c) of this Item 15.

(b) Reports on Form 8-K

Form 8-K/A dated September 6, 2002, was filed pursuant to Item 4 (Changes in Registrant's Certifying Accountant)

Form 8-K dated October 31, 2002, was filed pursuant to Item 5 (Other Events and Regulation FD Disclosure)

(c) Exhibits.

3.1 Articles of Amendment to the Articles of Incorporation of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the period ended July 31, 2001).

3.2 Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-KSB/A for the fiscal year ended October 31, 1999 (the "1999 10-KSB/A")).

3.3 Certificate of Designation of Series A Preferred Stock (incorporated by reference to Exhibit A of Exhibit 4.1 of the Company's Registration Statement on Form 8-A, filed with the Commission on August 10, 2000).

3.4 Certificate of Designation of Series B Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2002 (the "April 2002 10-Q"))

3.5 Bylaws of New Visual Corporation, as amended (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2002 (the "January 2002 10-Q")).

21

4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 3.1 of the 1999 10-KSB/A.

4.2 Rights Agreement by and between New Visual Entertainment, Inc. and First Union National Bank, dated August 9, 2000 (incorporated by reference to Exhibit 4.2 of the 1999 10-KSB/A).

10.1 Agreement to Produce Film, dated April 9, 2000 between New Visual Entertainment, Inc., Bruce Brown, Dana Brown and John-Paul Beeghly (incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-KSB for the period ended October 31, 2000 (the "2000 10-KSB")).*

10.2 2000 Omnibus Securities Plan of New Visual Entertainment, Inc. (incorporated by reference to Appendix A of the Company's definitive Proxy Statement filed with the Commission on May 2, 2000).*

10.3 Form of Credit Agreement dated June 29, 2000 by the Company and each of the following trusts: Epics Events Trust, Ltd.; Exodus Systems Trust,

Ltd.; Prospect Development Trust, Ltd.; Pearl Street Investments Trust, Ltd.; and Riviera Bay Holdings Trust, Ltd. (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the period ended July 31, 2000 (the "July 2000 10-QSB")).

10.4 Form of Amendment to Credit Agreement dated November 13, 2000 by New Visual Entertainment Inc. and each of the following trusts: Epics Events Trust, Ltd.; Exodus Systems Trust, Ltd.; Prospect Development Trust, Ltd.; Pearl Street Investments Trust, Ltd.; and Riviera Bay Holdings Trust, Ltd. (incorporated by reference to Exhibit 10.9 of the 2000 10-KSB).

10.5 Consulting Agreement dated as of March 6, 2001, by and between New Visual Entertainment, Inc. and Strategica Services Corporation (incorporated by reference to Exhibit 10.9 of the Company's Annual Report for the fiscal year ended October 31, 2001 (the "2001 10-K")).

10.6 Consulting Agreement dated as of May 1, 2001, by and between New Visual Entertainment, Inc. and Advisor Associates Inc. (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the period ended April 30, 2001).

10.7 Office Building Lease dated May 4, 2001, by and between Valley Park Associates LLC and New Wheel Technology, Inc., a subsidiary of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 10.11 of the 2001 10-K).

10.8 2001 Stock Incentive Plan for New Visual Corporation (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (No. 333-68716), as filed with the Commission on August 30, 2001).*

10.9 Consulting Agreement dated August 30, 2001, by and between New Visual Corporation and Jack Burstein (incorporated by reference to Exhibit 10.13 of the 2001 10-K).

10.10 Stock Option Agreement dated August 30, 2001, by and between New Visual Corporation and Jack Burstein (incorporated by reference to Exhibit 10.14 of the 2001 10-K).

10.11 Promissory Note dated September 6, 2001 by John Howell in favor of New Visual Corporation (incorporated by reference to Exhibit 10.15 of the 2001 10-K).*

10.12 First Amendment to Office Building Lease dated September 12, 2001, by and between Valley Park Associates, LLC and New Wheel Technology, Inc., a subsidiary of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 10.16 of the 2001 10-K).

10.13 Technology Planning and Assistance Agreement dated September 28, 2001, by and between New Visual Corporation and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.17 of the 2001 10-K).

10.14 Convertible Promissory Note dated October 10, 2001 by New Visual Corporation in favor of Nellie Streeter Crane, Ltd. (incorporated by reference to Exhibit 10.18 of the 2001 10-K).

10.15 Warrant Certificate, issued to Advisor Associates, Inc. in October 2001. (1)

10.16 Convertible Promissory Note dated October 15, 2001 by New Visual Corporation in favor of Quail Run Trust Limited (incorporated by reference to Exhibit 10.19 of the 2001 10-K).

10.17 Convertible Promissory Note dated October 23, 2001 by New Visual Corporation in favor of Charles R. Cono (incorporated by reference to Exhibit 10.20 of the 2001 10-K).

10.18 Convertible Promissory Note dated December 14, 2001 by New Visual Corporation in favor of the Gerald and Judith Handler Living Trust (incorporated by reference to Exhibit 10.21 of the 2001 10-K).

10.19 Convertible Promissory Note dated December 14, 2001 by New Visual Corporation in favor of W.P. Lill, Jr. Trust dated 12/22/99 (incorporated by reference to Exhibit 10.22 of the 2001 10-K).

10.20 Convertible Promissory Note dated December 14, 2001 by New Visual Corporation in favor of the Handler Children Trust (incorporated by reference to Exhibit 10.23 of the 2001 10-K).

10.21 Employment Agreement dated as of January 1, 2002 by and between New Visual Corporation and John Howell (incorporated by reference to Exhibit 10.24 of the 2001 10-K).*

10.22 Promissory Note dated as of January 1, 2002, by John Howell in favor of New Visual Corporation (incorporated by reference to Exhibit 10.25 of the 2001 10-K). *

10.23 Warrant Agreement dated February 11, 2002, by and between New Visual Corporation and Elite Financial Communications, LLC (incorporated by reference to Exhibit 10.6 of the January 2002 10-Q).

10.24 Consulting Agreement dated February 22, 2002, by and between New Visual Corporation and Bruce McLeod (incorporated by reference to Exhibit 10.19 of the April 2002 10-Q).

10.25 Employment Agreement dated February 25, 2002, by and between New Visual Corporation and C. Rich Wilson III (incorporated by reference to Exhibit 10.11 of the January 2002 10-Q).*

10.26 Restricted Stock Award Agreement dated as of February 25, 2002, by and between New Visual Corporation and John Howell (incorporated by reference to Exhibit 10.12 of the January 2002 10-Q).*

10.27 Consulting Agreement dated February 26, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.13 of the January 2002 10-Q).*

10.28 Stock Option Agreement dated February 26, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.14 of the January 2002 10-Q).*

10.29 Convertible Promissory Note dated March 8, 2002, by New Visual Corporation in favor of Tony Finn (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the period ended July 31, 2002 (the "July 2002 10-Q)).

10.30 Convertible Promissory Noted dated March 8, 2002, by New Visual Corporation in favor of James Joseph Redmon (incorporated by reference to Exhibit 10.2 of the July 2002 10-Q).

10.31 Convertible Promissory Note dated March 22, 2002, by New Visual Corporation in favor of the M. Lucile Way Trust (incorporated by reference to Exhibit 10.3 of the July 2002 10-Q).

10.32 Convertible Promissory Note dated March 22, 2002, by New Visual Corporation in favor of D W Construction, Inc. (incorporated by reference to Exhibit 10.4 of the July 2002 10-Q).

10.33 Employment Agreement dated March 22, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.10 of the April 2002 10-Q).*

10.34 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.11 of the April 2002 10-Q).*

10.35 Employment Agreement dated March 22, 2002, by and between New Visual Corporation and Ray Willenberg, Jr. (incorporated by reference to Exhibit 10.12 of the April 2002 10-Q).*

10.36 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Ray Willenberg, Jr. (incorporated by reference to Exhibit 10.13 of the April 2002 10-Q).*

10.37 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Brad Ketch (incorporated by reference to Exhibit 10.14 of the April 2002 10-Q).*

10.38 Consulting Agreement dated March 22, 2002, by and between New Visual Corporation and Brad Ketch. (1)*

10.39 Convertible Promissory Note dated April 5, 2002, by New Visual Corporation in favor of D W Construction, Inc. (incorporated by reference to Exhibit 10.5 of the July 2002 10-Q).

10.40 Development and License Agreement dated as of April 17, 2002, by and between Adaptive Networks, Inc. and New Visual Corporation (Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Commission) (incorporated by reference to Exhibit 10.15 of the April 2002 10-Q).

10.41 Right of First Refusal, Credit of Payments and Revenue Sharing Agreement dated as of April 17, 2002, by and among New Visual Corporation, Adaptive Networks and Certain Shareholders of Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.16 of the April 2002 10-Q).

10.42 Receivables Purchase and Stock Transfer Restriction Agreement dated as of April 17, 2002, by and among New Visual Corporation, Zaiq Technologies, Inc. and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.17 of the April 2002 10-Q).

10.43 Receivables Purchase and Stock Transfer Restriction Agreement dated as of April 17, 2002, by and among New Visual Corporation, TLSI, Inc. and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.18 of the April 2002 10-Q).

10.44 Convertible Promissory Note dated May 21, 2002, by New Visual

Corporation in favor of John Marsden (incorporated by reference to Exhibit 10.6 of the July 2002 10-Q).

10.45 Convertible Promissory Note dated May 21, 2002, by New Visual Corporation in favor of Randy Arnett (incorporated by reference to Exhibit 10.7 of the July 2002 10-Q).

10.46 Convertible Promissory Note dated May 30, 2002, by New Visual Corporation in favor of the M. Lucile Way Trust (incorporated by reference to Exhibit 10.8 of the July 2002 10-Q).

10.47 Convertible Promissory Note dated May 31, 2002, by New Visual Corporation in favor of Robert E. Casey, Jr. (incorporated by reference to Exhibit 10.9 of the July 2002 10-Q).

10.48 Convertible Promissory Note dated June 12, 2002, by New Visual Corporation in favor of Bonnie Davis (incorporated by reference to Exhibit 10.10 of the July 2002 10-Q).

10.49 Employment Agreement dated July 1, 2002, by and between New Visual Corporation and Brad Ketch (incorporated by reference to Exhibit 10.11 of the July 2002 10-Q).*

10.50 Consulting Agreement dated as of July 17, 2002, by and between New Visual Corporation and Charles R. Cono (incorporated by reference to Exhibit 10.13 of the July 2002 10-Q).

10.51 Promissory Note dated July 17, 2002, by New Visual Corporation in favor of Charles R. Cono Trust, Charles R. Cono, TTEE (incorporated by reference to Exhibit 10.14 of the July 2002 10-Q).

10.52 Consulting Agreement dated as of July 30, 2002, by and between New Visual Corporation and Advisor Associates, Inc. (incorporated by reference to Exhibit 10.15 of the July 2002 10-Q).

10.53 Severance Agreement and General Release dated September 17, 2002 and effective September 30, 2002 by and between New Visual Corporation and John Howell. (1)*

10.54 Consulting Agreement dated as of September 2002, by and between New Visual Corporation and Starburst Innovations, LLC. *

10.55 Agreement dated as of September 2002 by and between New Visual Corporation and Starburst Innovations, LLC. (1)

10.56 Regulation S Purchase Agreement dated September 23, 2002 between New Visual Corporation and Starz Investments Limited. (1)

10.57 Promissory Note dated October 29, 2002 in favor of Robert E Casey, Jr. (1)

10.58 Severance Agreement and Release dated December 2, 2002, by and between New Visual Corporation and Thomas J. Cooper. (1)

10.59 Employment Agreement dated December 2, 2002, by and between New Visual Corporation and Brad Ketch. (1)*

10.60 Stock Option Agreement dated December 2, 2002, by and between New Visual Corporation and Brad Ketch. (1)*

10.61 Promissory note dated October 31, 2002 in favor of Charles R Cono Trust, Charles R. Cono, TTEE (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K dated October 31, 2002).

21.1 Subsidiaries of the Registrant (1)

23.1 Consent of Marcum & Kliegman LLP, Independent Auditors (1)

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(1) Filed herewith.
* Signifies a management agreement or compensatory plan or arrangement.

25

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: January 29, 2002

NEW VISUAL CORPORATION

By: /s/ Brad Ketch
Brad Ketch
President and Chief Executive Officer

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

SIGNATURE	TITLE	DATE
/s/ Brad Ketch Brad Ketch	President, Chief Executive Officer and Director (PRINCIPAL EXECUTIVE OFFICER)	January 29
/s/ Thomas J. Sweeney Thomas J. Sweeney	Chief Financial Officer (PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER)	January 29
/s/ Ray Willenberg, Jr. Ray Willenberg, Jr.	Chairman of the Board	January 29
/s/ C. Rich Wilson III C. Rich Wilson III	Vice President, Secretary and Director	January 29
/s/ Ivan Berkowitz	Director	January 29

Ivan Berkowitz

/s/ Bruce Brown ----------------------- Bruce Brown	Director	January 29
----------------------- Thomas J. Cooper	Director	January 29
----------------------- John Howell	Director	January 29

26

CERTIFICATIONS

I, Brad Ketch, President and Chief Executive Officer of New Visual Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of New Visual Corporation;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 29, 2003

/s/ Brad Ketch
Brad Ketch, President
and Chief Executive Officer

27

I, Thomas J. Sweeney, Chief Financial Officer of New Visual Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of New Visual Corporation;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent

functions);

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 29, 2003

/s/ Thomas J. Sweeney
Thomas J. Sweeney
Chief Financial Officer

28

EXHIBIT INDEX

3.1 Articles of Amendment to the Articles of Incorporation of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the period ended July 31, 2001).

3.2 Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-KSB/A for the fiscal year ended October 31, 1999 (the "1999 10-KSB/A")).

3.3 Certificate of Designation of Series A Preferred Stock (incorporated by reference to Exhibit A of Exhibit 4.1 of the Company's Registration Statement on Form 8-A, filed with the Commission on August 10, 2000).

3.4 Certificate of Designation of Series B Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2002 (the "April 2002 10-Q"))

3.5 Bylaws of New Visual Corporation, as amended (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2002 (the "January 2002 10-Q")).

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10.1 Agreement to Produce Film, dated April 9, 2000 between New Visual Entertainment, Inc., Bruce Brown, Dana Brown and John-Paul Beeghly (incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-KSB for the period ended October 31, 2000 (the "2000 10-KSB")).

10.2 2000 Omnibus Securities Plan of New Visual Entertainment, Inc.

(incorporated by reference to Appendix A of the Company's definitive Proxy Statement filed with the Commission on May 2, 2000).

10.3 Form of Credit Agreement dated June 29, 2000 by the Company and each of the following trusts: Epics Events Trust, Ltd.; Exodus Systems Trust, Ltd.; Prospect Development Trust, Ltd.; Pearl Street Investments Trust, Ltd.; and Riviera Bay Holdings Trust, Ltd. (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the period ended July 31, 2000 (the "July 2000 10-QSB")).

10.4 Form of Amendment to Credit Agreement dated November 13, 2000 by New Visual Entertainment Inc. and each of the following trusts: Epics Events Trust, Ltd.; Exodus Systems Trust, Ltd.; Prospect Development Trust, Ltd.; Pearl Street Investments Trust, Ltd.; and Riviera Bay Holdings Trust, Ltd. (incorporated by reference to Exhibit 10.9 of the 2000 10-KSB).

10.5 Consulting Agreement dated as of March 6, 2001, by and between New Visual Entertainment, Inc. and Strategica Services Corporation (incorporated by reference to Exhibit 10.9 of the Company's Annual Report for the fiscal year ended October 31, 2001 (the "2001 10-K")).

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10.7 Office Building Lease dated May 4, 2001, by and between Valley Park Associates LLC and New Wheel Technology, Inc., a subsidiary of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 10.11 of the 2001 10-K).

10.8 2001 Stock Incentive Plan for New Visual Corporation (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (No. 333-68716), as filed with the Commission on August 30, 2001).

10.9 Consulting Agreement dated August 30, 2001, by and between New Visual Corporation and Jack Burstein (incorporated by reference to Exhibit 10.13 of the 2001 10-K).

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10.11 Promissory Note dated September 6, 2001 by John Howell in favor of New Visual Corporation (incorporated by reference to Exhibit 10.15 of the 2001 10-K).

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10.34 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.11 of the April 2002 10-Q).

10.35 Employment Agreement dated March 22, 2002, by and between New Visual Corporation and Ray Willenberg, Jr. (incorporated by reference to Exhibit 10.12 of the April 2002 10-Q).

10.36 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Ray Willenberg, Jr. (incorporated by reference to Exhibit 10.13 of the April 2002 10-Q).

10.37 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Brad Ketch (incorporated by reference to Exhibit 10.14 of the April 2002 10-Q).

10.38 Consulting Agreement dated March 22, 2002, by and between New Visual Corporation and Brad Ketch. (1)

10.39 Convertible Promissory Note dated April 5, 2002, by New Visual Corporation in favor of D W Construction, Inc. (incorporated by reference to Exhibit 10.5 of the July 2002 10-Q).

10.40 Development and License Agreement dated as of April 17, 2002, by and between Adaptive Networks, Inc. and New Visual Corporation (Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Commission) (incorporated by reference to Exhibit 10.15 of the April 2002 10-Q).

10.41 Right of First Refusal, Credit of Payments and Revenue Sharing Agreement dated as of April 17, 2002, by and among New Visual Corporation, Adaptive Networks and Certain Shareholders of Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.16 of the April 2002 10-Q).

10.42 Receivables Purchase and Stock Transfer Restriction Agreement dated as of April 17, 2002, by and among New Visual Corporation, Zaiq Technologies, Inc. and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.17 of the April 2002 10-Q).

10.43 Receivables Purchase and Stock Transfer Restriction Agreement dated as of April 17, 2002, by and among New Visual Corporation, TLSI, Inc. and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.18 of

the April 2002 10-Q).

10.44 Convertible Promissory Note dated May 21, 2002, by New Visual Corporation in favor of John Marsden (incorporated by reference to Exhibit 10.6 of the July 2002 10-Q).

10.45 Convertible Promissory Note dated May 21, 2002, by New Visual Corporation in favor of Randy Arnett (incorporated by reference to Exhibit 10.7 of the July 2002 10-Q).

10.46 Convertible Promissory Note dated May 30, 2002, by New Visual Corporation in favor of the M. Lucile Way Trust (incorporated by reference to Exhibit 10.8 of the July 2002 10-Q).

10.47 Convertible Promissory Note dated May 31, 2002, by New Visual Corporation in favor of Robert E. Casey, Jr. (incorporated by reference to Exhibit 10.9 of the July 2002 10-Q).

10.48 Convertible Promissory Note dated June 12, 2002, by New Visual Corporation in favor of Bonnie Davis (incorporated by reference to Exhibit 10.10 of the July 2002 10-Q).

10.49 Employment Agreement dated July 1, 2002, by and between New Visual Corporation and Brad Ketch (incorporated by reference to Exhibit 10.11 of the July 2002 10-Q).

10.50 Consulting Agreement dated as of July 17, 2002, by and between New Visual Corporation and Charles R. Cono (incorporated by reference to Exhibit 10.13 of the July 2002 10-Q).

10.51 Promissory Note dated July 17, 2002, by New Visual Corporation in favor of Charles R. Cono Trust, Charles R. Cono, TTEE (incorporated by reference to Exhibit 10.14 of the July 2002 10-Q).

10.52 Consulting Agreement dated as of July 30, 2002, by and between New Visual Corporation and Advisor Associates, Inc. (incorporated by reference to Exhibit 10.15 of the July 2002 10-Q).

10.53 Severance Agreement and General Release dated September 17, 2002 and effective September 30, 2002 by and between New Visual Corporation and John Howell. (1)

10.54 Consulting Agreement dated as of September 2002, by and between New Visual Corporation and Starburst Innovations, LLC. (1)

10.55 Agreement dated as of September 2002 by and between New Visual Corporation and Starburst Innovations, LLC. (1)

10.56 Regulation S Purchase Agreement dated September 23, 2002 between New Visual Corporation and Starz Investments Limited. (1)

10.57 Promissory Note dated October 29, 2002 in favor of Robert E Casey, Jr. (1)

10.58 Severance Agreement and Release dated December 2, 2002, by and between New Visual Corporation and Thomas J. Cooper. (1)

10.59 Employment Agreement dated December 2, 2002, by and between New Visual Corporation and Brad Ketch. (1)

10.60 Stock Option Agreement dated December 2, 2002, by and between New Visual Corporation and Brad Ketch. (1)

10.61 Promissory note dated October 31, 2002 in favor of Charles R Cono Trust, Charles R. Cono, TTEE (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K dated October 31, 2002).

21.1 Subsidiaries of the Registrant (1)

23.1 Consent of Marcum & Kliegman LLP, Independent Auditors (1)

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(1) Filed herewith.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(Formerly New Visual Entertainment, Inc. and Subsidiaries)
(A Development-Stage Company Commencing November 1, 1999)

FINANCIAL REPORT

OCTOBER 31, 2002

NEW VISUAL CORPORATION AND SUBSIDIARIES
(Formerly New Visual Entertainment, Inc. and Subsidiaries)
(A Development-Stage Company Commencing November 1, 1999)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page Nos.
INDEPENDENT AUDITORS' REPORT	F-1
CONSOLIDATED BALANCE SHEETS At October 31, 2002 and 2001	F-2
CONSOLIDATED STATEMENTS OF OPERATIONS For the Years Ended October 31, 2002, 2001 and 2000 For the Period from November 1, 1999 to October 31, 2002	F-3
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY) For the Years Ended October 31, 2000, 2001 AND 2002	F-4 - 11
CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended October 31, 2002, 2001 and 2000	F-12 - 13

For the Period from November 1, 1999 to October 31, 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS F-14 - 46

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
New Visual Corporation

We have audited the accompanying consolidated balance sheets of New Visual Corporation and Subsidiaries (formerly New Visual Entertainment, Inc. and Subsidiaries) (a development stage company commencing November 1, 1999) (the "Company") as of October 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for the years ended October 31, 2002, 2001 and 2000 and for the period from November 1, 1999 to October 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Visual Corporation and Subsidiaries (formerly New Visual Entertainment, Inc. and Subsidiaries)(a development stage company commencing November 1, 1999) at October 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three years ended October 31, 2002, 2001 and 2000 and for the period from November 1, 1999 to October 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated financial statements, the Company incurred net losses of approximately $9,467,000, $11,876,000 and $12,725,000 during the years ended October 31, 2002, 2001 and 2000, respectively. As of October 31, 2002, the Company had a working capital deficiency of approximately $4,584,000. These conditions raise substantial doubt about the Company's ability to continue as a going-concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MARCUM & KLIEGMAN LLP

New York, New York

January 21, 2003

F-1

NEW VISUAL CORPORATION AND SUBSIDIARIES
(Formerly New Visual Entertainment, Inc. and Subsidiaries)
(A Development-Stage Company Commencing November 1, 1999)

CONSOLIDATED BALANCE SHEETS

ASSETS

	At October 31,	
	2002	2001
Current Assets:		
Cash and cash equivalents	$ 311,577	$ 294,802
Note receivable from related party	--	100,708
Other receivable from officers	10,032	70,183
Other current assets	1,650	94,416
Total Current Assets	323,259	560,109
Property and equipment - net of accumulated depreciation	64,533	284,896
Technology license and capitalized software development fee	5,751,000	--
Project under development	2,178,831	1,912,650
Other assets	14,679	33,642
Total Assets	$ 8,332,302	$ 2,791,297

LIABILITIES AND STOCKHOLDERS' EQUITY

	2002	2001
Current Liabilities:		
Convertible notes payable	$ 954,500	$ 615,000
Notes payable	971,407	--
Accounts payable and accrued expenses	2,247,698	1,435,024
License and development fees payable	734,000	--
Total Current Liabilities	4,907,605	2,050,024
Notes payable	--	256,886
Total Liabilities	4,907,605	2,306,910
Redeemable Series B preferred stock	3,192,000	--
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; 100,000,000 shares authorized; 49,787,069 and 30,003,681 shares issued		

and outstanding at October 31, 2002 and 2001, respectively	49,787	30,003
Additional paid-in capital	47,097,830	38,478,279
Subscription receivable	--	(103,500)
Unearned financing fees	(214,952)	(537,380)
Unearned compensation	(331,581)	(481,751)
Accumulated deficit at October 31, 1999	(12,300,033)	(12,300,033)
Deficit accumulated during development stage	(34,068,354)	(24,601,231)
Total Stockholders' Equity	232,697	484,387
Total Liabilities and Stockholders' Equity	$ 8,332,302	$ 2,791,297

The accompanying notes are an integral part of these 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 OPERATIONS

	For the Years Ended October 31,			For the Period from November 1, 19 to October 31, 20
	2002	2001	2000	
REVENUES	$ --	$ --	$ 12,200	$ 12,200
OPERATING EXPENSES:				
Cost of sales	--	--	21,403	21,403
Projects written off	--	--	114,613	114,613
Research and development	1,298,560	839,402	815,362	2,953,324
Acquired in-process research and development	--	--	6,050,000	6,050,000
Compensatory element of stock issuances for selling, general and administrative expenses	2,459,158	3,558,887	3,258,549	9,276,594
Selling, general and administrative expenses	3,555,754	4,086,795	2,041,942	9,684,491
Litigation settlement	--	1,000,000	--	1,000,000
Loss on disposal of equipment	--	7,500	--	7,500
TOTAL OPERATING EXPENSES	7,313,472	9,492,584	12,301,869	29,107,925
OPERATING LOSS	(7,313,472)	(9,492,584)	(12,289,669)	(29,095,725)
OTHER EXPENSES:				
Interest expense	1,036,434	337,378	18,980	1,392,792
Amortization of unearned				

financing costs	1,117,217	2,045,953	416,667	3,579,837
TOTAL OTHER EXPENSES	2,153,651	2,383,331	435,647	4,972,629
NET LOSS	$ (9,467,123)	$(11,875,915)	$(12,725,316)	$(34,068,354)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (.23)	$ (.46)	$ (.59)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	41,861,295	25,988,990	21,579,916	

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Common Stock		Additional
	Shares (1)	Amount	Paid-in Capital
Balance - November 1, 1999	17,224,049	$ 17,224	$12,197,374
Issuance of common stock for cash ($1.00 to $4.00 per share for year ended October 31)	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 stock for exercise of warrants ($2.40 per share)	68,750	69	164,931
Issuance of 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.

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Unearned Financing Costs	Accumulated Deficit	Total Stockholders Equity
Balance - November 1, 1999	$ --	$(12,300,033)	$ (85,435
Issuance of common stock for cash ($1.00 to $4.00 per share for the year ended October 31)	--	--	2,734,388
Issuance of common stock for services:			
($1.00 to $1.40 per share for the quarter ended January 31)	--	--	34,050
($1.20 to $12.00 per share for the quarter ended April 30)	--	--	1,814,729
($3.00 to $7.88 per share for the quarter ended July 31)	--	--	619,650
($.25 to $12.50 per share for the quarter ended October 31)	--	--	28,122
Acquisition of Impact Pictures, Inc. ($4.00 per share)	--	--	50,000
Acquisition of New Wheel Technology, Inc. ($2.00 per share)	--	--	6,000,000
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)	--	--	165,000
Issuance of stock in connection with private placement ($5.00 to $5.50 per share)	--	--	415,000
Value assigned to issuance of 200,000 warrants	--	--	762,000
Amortization of unearned financing costs	416,667	--	416,667
Net loss	--	(12,725,316)	(12,725,316
Balance - October 31, 2000	$ (2,583,333)	$(25,025,349)	$ 228,855

Accumulated deficit as of November 1, 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)

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Common Stock		Additio Paid- Capit
	Shares	Amount	
Balance - November 1, 2000	24,072,455	$ 24,072	$ 27,813
Issuance of common stock for cash ($.25 to $5.00 per share)	1,212,254	1,212	1,075
Issuance of common stock with attached warrants ($4.02 per share for quarter ended January 31)	174,714	175	489
Issuance of common stock with attached warrants ($5.10 per share for quarter ended January 31)	30,600	31	85
Issuance of common stock with attached warrants ($2.80 to $5.10 per share for quarter ended April 30)	104,571	105	292
Issuance of common stock in connection with			

Private Placement			
($4.35 to $5.50 per share for quarter ended January 31)	32,445	32	151
($2.60 to $3.37 per share for quarter ended April 30)	207,307	207	619
($1.74 to $2.80 per share for quarter ended July 31)	1,446,355	1,446	2,742
Issuance of common stock in connection with litigation settlement	250,000	250	999
Issuance of stock to Vice-Chairperson of Board of Directors for services ($1.8984 per share at June 11)	500,000	500	948
Issuance of stock under consulting agreement ($2.90 to $3.90 per share at July 31)	50,960	51	171
Issuance of stock under consulting agreements ($.41 to $.95 per share at October 31)	1,175,000	1,175	558
Issuance of stock in connection with exercising of option ($.27 at September 30)	750,000	750	199
Value assigned to warrants issued to consultants at quarter ended July 31	--	--	1,289
Value assigned to options issued to consultants at August 30	--	--	540
Value assigned to warrants issued to consultants at quarter ended October 31	--	--	380
Value assigned to options issued to advisory board members at quarter ended October 31	--	--	151
Cancellation of common stock issued for cash	(2,980)	(3)	(29
Amortization of unearned financing costs	--	--	
Amortization of unearned compensation expenses	--	--	
Net loss	--	--	
Balance - October 31, 2001	30,003,681	$ 30,003	$ 38,478

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Subscription Receivable	Unearned Financing Costs	Unearned Compensation Expense
Balance - October 31, 2000	$ --	$(2,583,333)	$ --

Issuance of common stock for cash ($.25 to $5.00 per share)	(3,500)	--	--
Issuance of common stock with attached warrants ($4.02 per share for quarter ended January 31)	--	--	--
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)	--	--	--
Issuance of common stock in connection with Private Placement			
($4.35 to $5.50 per share for quarter ended January 31)	--	--	--
($2.60 to $3.37 per share for quarter ended April 30)	--	--	--
($1.74 to $2.80 per share for quarter ended July 31)	--	--	--
Issuance of common stock in connection with litigation settlement	--	--	--
Issuance of stock to Vice-Chairperson of Board of Directors for services ($1.8984 per share at June 11)	--	--	--
Issuance of stock under consulting agreement ($2.90 to $3.90 per share at July 31)	--	--	--
Issuance of stock under consulting agreements ($.41 to $.95 per share at October 31)	--	--	--
Issuance of stock in connection with exercising of option ($.27 at September 30)	(100,000)	--	--
Value assigned to warrants issued to consultants at quarter ended July 31	--	--	--
Value assigned to options issued to consultants at August 30	--	--	(540,000)
Value assigned to warrants issued to consultants at quarter ended October 31	--	--	--
Value assigned to options issued to advisory board members at quarter ended October 31	--	--	(151,194)
Cancellation of common stock issued for cash	--	--	--
Amortization of unearned financing costs	--	2,045,953	--
Amortization of unearned compensation expenses	--	--	209,443
Net loss	--	--	--
Balance - October 31, 2001	$ (103,500)	$ (537,380)	$ (481,751)

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Accumulated Deficit	Total Stockholders' Equity
Balance - October 31, 2000	$(25,025,349)	$ 228,855
Issuance of common stock for cash ($.25 to $5.00 per share)	--	1,073,475
Issuance of common stock with attached warrants ($4.02 per share for quarter ended January 31)	--	489,199
Issuance of common stock with attached warrants ($5.10 per share for quarter ended January 31)	--	85,680
Issuance of common stock with attached warrants ($2.80 to $5.10 per share for quarter ended April 30)	--	292,800
Issuance of common stock in connection with Private Placement		
($4.35 to $5.50 per share for quarter ended January 31)	--	152,000
($2.60 to $3.37 per share for quarter ended April 30)	--	620,000
($1.74 to $2.80 per share for quarter ended July 31)	--	2,743,454
Issuance of common stock in connection with litigation settlement	--	1,000,000
Issuance of stock to Vice-Chairperson of Board of Directors for services ($1.8984 per share at June 11)	--	949,200
Issuance of stock under consulting agreement ($2.90 to $3.90 per share at July 31)	--	171,744
Issuance of stock under consulting agreements ($.41 to $.95 per share at October 31)	--	559,250
Issuance of stock in connection with exercising of option ($.27 at September 30)	--	100,000
Value assigned to warrants issued to consultants at quarter ended July 31	--	1,289,250
Value assigned to options issued to consultants at August 30	--	--
Value assigned to warrants issued to consultants at quarter ended October 31	--	380,000
Value assigned to options issued to advisory board members at quarter ended October 31	--	--
Cancellation of common stock issued for cash	--	(30,001)
Amortization of unearned financing costs	--	2,045,953
Amortization of unearned compensation expenses	--	209,443
Net loss	(11,875,915)	(11,875,915)
Balance - October 31, 2001	$(36,901,264)	$ 484,387

Accumulated deficit as of November 1, 1999	$(12,300,033)
Accumulated deficit during development stage	(24,601,231)

Total Accumulated Deficit as of October 31, 2001	$(36,901,264)

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Common Stock		Additional Paid-in
	Shares	Amount	Capital
Balance - November 30, 2001	30,003,681	$ 30,003	$ 38,478,279
Issuance of common stock under consulting agreements ($.40 to $1.24 per share)	1,967,312	1,968	1,156,912
Issuance of common stock for cash ($.25 to $1.00 per share)	6,448,675	6,449	2,114,476
Cash received for subscription receivable	--	--	--
Issuance of common stock in connection with the exercise of warrants ($.25 per share)	2,912,000	2,912	725,088
Cashless exercise of warrants	736,008	736	(736)
Issuance of common stock for conversion of promissory notes and interest($.40 to $.70 per share)	4,497,967	4,498	2,179,128
Issuance of common stock for release of claims	1,261,946	1,262	(1,262)
Issuance of common stock for technology license acquisition	624,480	624	749,376
Issuance of common stock to employees	1,035,000	1,035	432,203
Issuance of common stock for financing fee	300,000	300	140,700
Stock offering costs	--	--	(246,993)
Value assigned to beneficial conversion	--	--	653,789
Value assigned to warrants issued to consultants	--	--	533,370
Value assigned to options issued to consultants	--	--	183,500
Amortization of unearned compensation expense	--	--	--
Amortization of unearned financing costs	--	--	--
Net loss	--	--	--
Balance - October 31, 2002	49,787,069	$ 49,787	$ 47,097,830

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Subscription Receivable	Unearned Financing Costs	Unearned Compensation Expense
Balance - October 31, 2001	$ (103,500)	$ (537,380)	$ (481,751)
Issuance of common stock under consulting agreements ($.40 to $1.24 per share)	--	--	(344,280)
Issuance of common stock for cash ($.25 to $1.00 per share)	--	--	--
Cash received for subscription receivable	103,500	--	--
Issuance of common stock in connection with the exercise of warrants ($.25 per share)	--	--	--
Cashless exercise of warrants	--	--	--
Issuance of common stock for conversion of promissory notes and interest ($.40 to $.70 per share)	--	--	--
Issuance of common stock for release of claims	--	--	--
Issuance of common stock for technology license acquisition	--	--	--
Issuance of common stock to employees	--	--	(100,000)
Issuance of common stock for financing fee	--	(141,000)	--
Stock offering costs	--	--	--
Value assigned to beneficial conversion	--	(653,789)	--
Value assigned to warrants issued to consultants	--	--	(467,370)
Value assigned to options issued to consultants	--	--	(183,500)
Amortization of unearned compensation expense	--	--	1,245,320
Amortization of unearned financing costs	--	1,117,217	--
Net loss	--	--	--
Balance - October 31, 2002	$ --	$ (214,952)	$ (331,581)

The accompanying notes are an integral part of these 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 (DEFICIENCY)

FOR THE YEARS ENDED OCTOBER 31, 2000, 2001 AND 2002

	Accumulated Deficit	Total Stockholders' Equity
Balance - October 31, 2001	$(36,901,264)	$ 484,387
Issuance of common stock under consulting Agreements ($.40 to $1.24 per share)	--	814,600
Issuance of common stock for cash ($.25 to $1.00 per share)	--	2,120,925
Cash received for subscription receivable	--	103,500
Issuance of common stock in connection with the exercise of warrants ($.25 per share)	--	728,000
Cashless exercise of warrants	--	--
Issuance of common stock for conversion of promissory notes and interest($.40 to $.70 per share)	--	2,183,626
Issuance of common stock for release of claims	--	--
Issuance of common stock for technology license acquisition	--	750,000
Issuance of common stock to employees	--	333,238
Issuance of common stock for financing fee	--	--
Stock offering costs	--	(246,993)
Value assigned to beneficial conversion	--	--
Value assigned to warrants issued to consultants	--	66,000
Value assigned to options issued to consultants	--	--
Amortization of unearned compensation expense	--	1,245,320
Amortization of unearned financing costs	--	1,117,217
Net loss	(9,467,123)	(9,467,123)
Balance - October 31, 2002	$(46,368,387)	$ 232,697

Accumulated deficit as of November 1, 1999	$(12,300,033)
Accumulated deficit during development stage (November 1, 1999 to October 31, 2002)	(34,068,354)
Total Accumulated Deficit as of October 31, 2002	$(46,368,387)

The accompanying notes are an integral part of these consolidated financial statements.

F-11

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

	For the Years Ended October 31,			For th Novemb
	2002	2001	2000	Octobe
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$ (9,467,123)	$(11,875,915)	$(12,725,316)	$(34
Adjustments to reconcile net loss to net cash used in operating activities:				
Consulting fees and other compensatory elements of stock issuances	2,429,659	3,558,887	3,258,549	9
Stock issued for litigation settlement	--	1,000,000	--	1
Loss on disposal of equipment	--	7,500	--	
Projects written-off	--	--	114,613	
Amortization of unearned financing costs	1,117,217	2,045,953	416,667	3
Depreciation	77,260	118,693	97,172	
Stock issued for acquired in-process research and development	--	--	6,050,000	6
(Increase) decrease from changes in:				
Other current assets	92,766	(106,809)	(30,227)	
Due from related parties	160,859	(100,708)	3,859	
Other assets	18,963	83,558	(112,200)	
Increase (decrease) from changes in:				
Accounts payable and accrued expenses	1,584,573	988,103	26,223	2
NET CASH USED IN OPERATING ACTIVITIES	(3,985,826)	(4,280,738)	(2,900,660)	(11
CASH USED IN INVESTING ACTIVITIES				
Acquisition of property and equipment	(2,513)	(17,302)	(388,733)	
Proceeds from sale of equipment	145,616	--	--	
Projects under development	(266,181)	(1,237,999)	(655,519)	(2
Acquisition of license	(1,075,000)	--	--	(1
NET CASH USED IN INVESTING ACTIVITIES	(1,198,078)	(1,255,301)	(1,044,252)	(3
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of common stock	2,224,422	5,426,607	3,149,388	10
Offering costs related to stock issuances	(246,993)	--	--	

Proceeds from notes payable	700,000	--	756,886	1
Proceeds from convertible notes payable payable	1,795,250	615,000	--	2
Repayments of notes payable	--	(500,000)	--	
Proceeds from exercise of options and warrants	728,000	100,000	165,000	
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,200,679	5,641,607	4,071,274	14
INCREASE IN CASH AND CASH EQUIVALENTS	16,775	105,568	126,362	
CASH AND CASH EQUIVALENTS - BEGINNING	294,802	189,234	62,872	
CASH AND CASH EQUIVALENTS - ENDING	$ 311,577	$ 294,802	$ 189,234	$

The accompanying notes are an integral part of these 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
(Continued)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	For the Years Ended October 31,		
	2002	2001	2000
Cash paid during the period for:			
Interest	$ --	$ --	$ 526
Income taxes	$ --	$ --	$ --

NON-CASH INVESTING AND FINANCING ACTIVITIES:

	2002	2001	2000
Notes and interest satisfied by issuance of common stock	$ 2,183,626	$ --	$ --
Common stock issued for acquisition of license	$ 750,000	$ --	$ --

Redeemable Series B Preferred Stock issued for acquisition of license	$ 3,192,000	$ --	$ --

The accompanying notes are an integral part of these 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

NOTE 1 - PRINCIPLES OF CONSOLIDATION,BUSINESS AND CONTINUED OPERATIONS

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

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.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, for the years ended October 31, 2002, 2001 and 2000, the Company incurred net losses of approximately $9,467,000, $11,876,000 and $12,725,000, respectively, and as of October 31, 2002, had a working capital deficiency of approximately $4,584,000. The Company has limited finances and requires additional funding in order to accomplish its growth objectives and marketing of its 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 expand its planned operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in this regard is to obtain other debt and equity financing until profitable operation and positive cash flows are achieved and maintained.

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.

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 2002, 2001 and 2000 through sales of its common stock, proceeds from notes and convertible notes and the exercise of options and warrants resulting in approximate net proceeds to the Company of $5,201,000, $6,142,000 and $4,071,000, respectively. The Company is exploring other financing alternatives, including private placements and other offerings.

The Company's ability to continue as a going concern is dependent upon obtaining additional financing. These 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.

NOTE 2- SUMMARY OF ACCOUNTING POLICIES

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.

Project Under Development

Statement of Positions SOP-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).

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 adopted the standard effective November 1, 2001, which did not have a material effect on the Company's financial position or results of operations.

During the year ended October 31, 2000, several projects under development were determined to have no estimated realizable value and were accordingly written-off. Project costs written-off during the year ended October 31, 2000 was $114,613.

The Company commences amortization of capitalized film costs and accrues (expenses) of participation costs when a film is released and it begins to recognize revenue from the film.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

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 the difference 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 income in the period that includes the enactment date.

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 carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, accrued expenses, amounts due from related parties and convertible notes approximate fair value because of their immediate

or short-term nature. The fair value of long-term notes payable approximates their carrying value because the stated rates of the debt either reflect recent market conditions or are variable in nature.

Revenue Recognition

Substantially all past revenues were 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 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

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 requires considerable judgement 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.

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 years ended October 31, 2002, 2001 and 2000 for its capitalized software development costs.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was $-0-, $942 and $71,528, respectively, for the years ended October 31, 2002, 2001 and 2000, respectively.

Loss Per Common Share

Basic loss per common share is computed based on 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. No effect has been given to outstanding options, warrants or convertible debentures in the diluted computation, as their effect would be antidilutive.

The number of potentially dilutive securities excluded from computation of diluted loss per share was approximately 18,910,000, 9,828,000 and 1,764,000 for the years ended October 31, 2002, 2001 and 2000, respectively.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Reverse Stock Splits

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

The Company follows Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation". SFAS 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 for stock compensation issued to employees or directors, as permitted. Stock compensation

issued to non-employees/directors are accounted for in accordance with SFAS No. 123.

Impairment of Long-Lived Assets

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", the Company evaluates its long-lived assets for financial impairment, and continues to evaluate them as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The Company evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Impact of Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. Certain provisions shall also be applied to acquisitions initiated subsequent to June 30, 2001. SFAS 142 supercedes APB Opinion No. 17, "Intangible Assets," and requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. Adoption of SFAS No. 142, which occurred November 1, 2001 did not have material effect on the Company's financial position or results of operations.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Standards (Continued)

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and certain provisions of APB Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also broadens the reporting requirements of discontinued operations to include all components of

an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of SFAS 144 are effective for fiscal years beginning after December 15, 2001. Adoption of SFAS No. 144, which occurred November 1, 2001 did not have a material effect on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent that meet the criteria for classification as an extraordinary item. The Company is required to adopt SFAS No. 145 no later than the first quarter of fiscal 2003, although early adoption is allowed. The Company has not yet evaluated the impact from SFAS No. 145 on its financial position and results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption of this statement to have a material effect on its financial statements.

On December 31, 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Statement 148 amends SFAS Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. Statement 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the statement does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Standards (Continued)

provisions of SFAS 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123, or the intrinsic value method of APB Opinion 25. The Company will continue to account for stock-based compensation according to APB 25, while its adoption of SFAS No. 148 requires the Company to provide prominent disclosures about the effect of SFAS No. 123 on reported income and will require the Company to disclose these effects in the interim financial statements as well.

In January 2003, the FASB issued FASB Interpretation No. 46 (" FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its results of operations and financial condition.

In November 2002, the FASB issued Interpretation No. 45, GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS (" FIN 45"). FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002 and adoption of the disclosure requirements are effective for the Company during the first quarter ending January 31, 2003. The Company does not expect the adoption of FIN 45 will have a significant impact on its consolidated financial position or results of operations.

Comprehensive Income

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

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

NOTE 3 - 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 year ended October 31, 2000. Revenues from Impact business totaled approximately $-0-, $-0- and $12,200, respectively, for the years ended October 31, 2002, 2001 and 2000.

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

NV 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 Astounding Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of New Visual, which following the merger changed its name to New Wheel Technology, Inc. On July 13, 2001, New Wheel changed its name to NV Technology, Inc., which the Company now uses to conduct the development of its broadband technology ("NV Technology"). An aggregate of 3,000,000 restricted shares of common stock valued at $6,000,000 were issued to the New Wheel stockholders in consideration of the merger. The merger agreement also provided that additional compensation may be payable 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. The Company has accounted for this acquisition under the purchase method of accounting. As of the acquisition date, NV Technology 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 year ended October 31, 2000.

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

See note 14 for discussion of a settlement agreement with the former owners of New Wheel.

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

NOTE 4 - NOTE RECEIVABLE FROM RELATED PARTIES

On September 6, 2001, the Company converted advances made to an officer in the amount of $99,656 into a promissory note, which was payable on demand and bore an interest rate of 7.0% per annum. On January 1, 2002, the Company converted additional advances made to the officer in the amount of $67,631 into a promissory note, which was payable on demand and bore an interest rate of 7.0% per annum.

On September 30, 2002, the Company and the officer discussed above mutually decided to end their relationship. The principal balance of $167,287 and accrued interest of $11,113 was satisfied by the Company agreeing to provide the officer with a termination payment equal to the remaining balance of the note receivable and accrued interest. The $178,400 was charged to selling, general and administrative expenses for the year ended October 31, 2002.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, consists of the following:

	At October 31,	
	2002	2001
Furniture and fixtures	$ 54,097	$ 51,584
Camera equipment	298,109	544,664
Office equipment	109,460	109,460
	461,721	705,708
Less: Accumulated depreciation	397,188	420,812
Total	$ 64,533	$ 284,896

For the years ended October 31, 2002, 2001 and 2000, depreciation expense was $77,260, $118,693 and $97,172, respectively.

NOTE 6 - TECHNOLOGY LICENSE AND DEVELOPMENT AGREEMENT

On April 17, 2002, the Company entered into a development and license agreement with Adaptive Networks, Inc. ("ANI") to acquire a worldwide, perpetual license to ANI's Powerstream technology, intellectual property, and patent portfolio for use in products relating to all applications in the field of the copper telephone wire telecommunications network. In consideration of the grant of the license, the Company assumed certain debt obligations of ANI to Zaiq Technologies, Inc. ("Zaiq") and TLSI, Inc. ("TLSI"). The Company then issued 3,192 shares of its Series B Preferred Stock, valued at $3,192,000, with a liquidation preference of $1,000 per share and paid $250,000 in cash to Zaiq in satisfaction of the Zaiq debt. The Company also issued 624,480 shares of common stock, valued at $750,000, to TLSI in satisfaction of the TLSI debt. The value of the consideration issued by the Company in connection with the license agreement totaled $4,192,000.

The Company also agreed to pay ANI a development fee of $1,559,000 for software development services and to pay ANI a royalty equal to a percentage of the net sales of products sold by the Company and license revenue received by the Company. As of October 31, 2002, $734,000 of this development fee was outstanding.

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

NOTE 6 - TECHNOLOGY LICENSE AND DEVELOPMENT AGREEMENT (Continued)

The Company capitalized the consideration issued in connection with the license fee and development fee totaling $5,751,000. The Company's technical employees and advisors concluded that as of March 2002 the Company had established technological feasibility for its ultimate telecommunication product to be marketed (see Note 1). Additional development services and testing, to be performed principally by ANI, are necessary to complete the product development.

The success of the Company's telecommunication segment is dependent upon the successful completion of development and testing of its broadband technology currently under development by its wholly-owned subsidiary, NV Technology, Inc. No assurance 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.

NOTE 7 - PROJECT UNDER DEVELOPMENT

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film 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. The Company's management currently expects to receive revenue from the film in three categories. These categories are upfront distribution licenses, product or title sponsorships, and, of course, box-office ticket sales. As of October 31, 2002, the Company has funded approximately $2,179,000 of production and other costs, which was included in projects under development in the accompanying consolidated balance sheet. As of October 31, 2002, the film was in production. Management of the Company expects to sign a distribution agreement during the year ended October 31, 2003. No amortization of the capitalized film costs was necessary for the years ended October 31, 2002, 2001 and 2000.

NOTE 8 - CONVERTIBLE NOTES PAYABLE

During fiscal 2001 and 2002, the Company entered into several convertible promissory note agreements with various trusts and individuals, totaling $2,410,250. The Company 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 7). 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 $.40 to $1.00. During the fiscal year ended October 31, 2002, principal and unpaid interest on several convertible promissory notes, totaling $2,183,625, of which $727,875 represented accrued interest, were converted into 4,497,967 shares of the Company's common stock. The remaining principal balance was $954,500 at October 31, 2002.

Several of the above convertible note agreements that were entered into during the fiscal year ended October 31, 2002, were convertible into common stock at a

conversion rate lower than the market price at the issuance of the convertible notes. The value of such beneficial conversion features was $653,789 and such amount was charged to financing costs during the fiscal year ended October 31, 2002.

NOTE 9 - NOTES PAYABLE

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 the 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.

On July 12, 2001, the Company repaid $500,000 under the above five credit agreements and reduced the balance to $256,886.

During the fiscal year ended October 31, 2002, no repayment was required or made under the above five credit agreements.

On July 17, 2002, the Company entered into a promissory note agreement with an individual totaling $500,000. The Company agreed to pay the principal and interest at 10% per annum on November 1, 2002.

On October 31, 2002, the Company renewed the above note and entered into a new promissory note for the above principal, plus accrued interest of $14,521 (total amount of the note $514,521). The note accrues interest at a rate of 10% per annum, compounded annually, on a 365-day year. The note is payable 3 days after written demand, but not before December 16, 2002. As of October 31, 2002, the balance outstanding under this note was $514,521.

On October 29, 2002, the Company entered into a promissory note agreement with an individual, totaling $200,000. The Company agreed to pay the principal and interest at 10% per annum on April 29, 2003.

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued liabilities consist of the following:

	At October 31,	
	2002	2001
Deferred Officers Compensation	$ 181,596	$ --
Accrued bonuses and payroll	334,307	--

Professional fees	623,044	606,807
Interest payable	541,350	356,601
Consulting fees	62,018	204,192
Miscellaneous	505,383	267,424
	$2,247,698	$1,435,024

NOTE 11 - REDEEMABLE SERIES B PREFERRED STOCK

On April 10, 2002, the Company amended its Articles of Incorporation and designated 4,000 of its authorized preferred stock as a Series B Preferred Stock, par value $.01 per share, with a liquidation preference of $1,000 per share.

The Series B Preferred Stock are mandatorily redeemable by the Company at the liquidation preference as follows:

(i) Closing of financing transaction of at least $15 million.

(ii) Closing of a corporate transaction, (such as a merger, consolidation, reorganization, sale of significant assets, etc.) resulting in a change of control.

(iii) In the event the Company completes a financing, which is at least $3 million but less than $15 million, the Company must partially redeem the Series B Preferred Stock based on a fraction, the numerator of which is the net cash proceeds received by the Company, as a result of the financing transaction, and the denominator of which is $15 million.

(iv) The Company is obligated to redeem any outstanding Series B Preferred Stock at its liquidation preference, in eight equal quarterly payments, commencing on March 31, 2005 and ending on December 31, 2006.

Holders of Series B Preferred Stock are entitled to receive dividends if, as and when declared by the Company's Board of Directors in preference to the holders of its common stock and of any other stock ranking junior to the Series B Preferred Stock with respect to dividends.

The Company cannot declare or pay any dividend or make any distribution on its common stock unless a dividend or distribution of at least two times the dividend paid on the common stock is also paid on the Series B Preferred Stock. Holders of Series B Preferred Stock are also entitled to share pro-rata (based on the aggregate liquidation preference) in any dividend, redemption or other distribution made to any other series of the Company's preferred stock. The Series B Preferred Stock does not have voting rights, except as required by law.

F-25

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

NOTE 10 - REDEEMABLE SERIES B PREFERRED STOCK (Continued)

Each share of the Series B Preferred Stock is convertible into shares of the Company's common stock by dividing $1,000 by the conversion price. The conversion price is the fair market value of the Company's common stock at the time of conversion, but not to be less than $.34 per share, subject to adjustment, and not to exceed $4.00 per share, subject to adjustment. Holders of the Series B Preferred Stock were granted piggy-back registration rights to register common shares reserved for such conversion.

In April 2002, the Company issued 3,192 shares of its Series B Preferred Stock, with redemption and liquidation preference of $3,192,000, in connection with a development and license agreement discussed in Note 6. As of October 31, 2002, there were 4,000 authorized shares Series B Preferred Stock and 3,192 shares issued and outstanding. Based on the redemption term, the Series B Preferred Stock is not included in stockholders' equity.

NOTE 12 - 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.

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.

F-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

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Preferred Stock and Rights Dividend (Continued)

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". 200,000 shares of the Series A Junior Participating Preferred Stock are initially reserved for issuance upon exercise of the rights. 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, 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. No Series A Preferred Stock was issued during the years ended October 31, 2002, 2001 and 2000, respectively.

Common Stock

Common Stock Issuances During the Year Ended October 31, 2002:

In February 2002, the Company issued an aggregate of 1,261,946 shares of its common stock to seven individuals who purchased common stock of the Company in a private placement completed in March 2001 and contended that they were entitled to receive these additional shares in connection with their initial purchase agreements. The parties reached an amicable resolution of the matter and the Company received a full and complete release from each investor.

In February 2002, the Company issued a stock award of 500,000 shares of common stock to an executive officer in consideration of his services to the Company. The stock award was granted pursuant to the Company's 2000 Plan. The executive officer purchased the shares for $.001 per share. The value assigned to the stock award was $225,000 and was charged to operations during the year ended October 31, 2002.

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

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Common Stock Issuances During the Year Ended October 31, 2002: (Continued)

In February 2002, the Company issued 485,000 shares of restricted common stock to two employees in consideration of their services to the Company. The value assigned to the common stock totalled $178,238 and was charged to operations for the year ended October 31, 2002.

During October 2002, the Company issued 50,000 shares of common stock, valued at $29,500, for deferred salary due to an employee.

During the year ended October 31, 2002, the Company sold 6,448,675 shares of common stock to investors for cash proceeds of $2,120,925, 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 quarter ended January 31, 2002, the Company sold 1,445,015 shares of common stock for $409,501.

- During the quarter ended April 30, 2002, the Company sold 4,123,989 shares of common stock for $1,275,224.

- During the quarter ended July 31, 2002, the Company sold 284,671 shares of common stock for $190,200.

- During the quarter ended October 31, 2002, the Company sold 595,000 shares of common stock for $246,000.

During the quarter ended January 31, 2002, the Company issued 950,000 shares of its common stock as consideration for consulting services performed by four consultants. Shares issued under these arrangements were valued at $494,898, which was all charged to operations during the year ended October 31, 2002.

During the quarter ended April 30, 2002, the Company issued 306,250 shares of its common stock as consideration for consulting services performed by two consultants. Shares issued under these arrangements were valued at $131,500, which was all charged to operations during the year ended October 31, 2002.

During the quarter ended July 31, 2002, the Company issued 359,500 shares of its common stock as consideration for consulting services performed by two consultants at prices ranging from $.95 to $1.24 per share, totaling $344,280.

During the quarter ended October 31, 2002, the Company issued 351,562 shares of its common stock as consideration for consulting services performed by two consultants at prices from $.45 to $.64 per share, totaling $188,203.

During March 2002, the Company issued 736,008 shares of its common stock due to a cashless exercise of warrants to purchase 1,000,000 shares of common stock.

During the year ended October 31, 2002, warrants to purchase 2,912,000 shares of common stock were exercised at $.25 per share, resulting in proceeds totaling $728,000.

During the year ended October 31, 2002, principal and accrued interest of several convertible promissory notes, totaling $2,183,625, was converted into 4,497,967 shares of the Company's common stock (Note 8).

During April 2002, the Company issued 624,480 shares of common stock, valued at $750,000, in connection with its technology license agreement with ANI (Note 6).

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Common Stock Issuances During the Year Ended October 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.

The Company can sell stock to the investors in five-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.

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.

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. Both the Series A and Series B warrants expire on November 17, 2003.

For the years ended October 31, 2001 and 2000, the Company has sold 1,686,107 and 77,248 shares of its common stock, respectively, under the above agreement and received proceeds of $3,515,454 and $415,000, respectively. As of October 31, 2001, this private placement was terminated. The Company does not expect any future proceeds from this private placement.

- Other:

During the year ended October 31, 2001, the Company issued 1,212,254 shares of restricted common stock to investors for cash proceeds of $1,073,475, as indicated below.

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

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

- In August of 2001, the Company issued 221,966 shares of common stock for $166,475.

- In October of 2001, the Company issued 749,384 shares of common stock for $205,500. The Company received $202,000 in October of 2001 and the remaining $3,500 was recorded as a subscription receivable and collected subsequent to October 31, 2001.

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Common Stock Issuances During the Year Ended October 31, 2001: (Continued)

In February of 2001, the Company issued 250,000 shares of common stock valued at $1,000,000 pursuant to a litigation settlement agreement with Astounding.com, Inc. and Jack Robinson. 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 for $85,680. The attached warrants have an exercise price of $5.10 per share and expire in January 2004.

During January 2001, the Company issued 174,714 shares of common stock with 87,357 attached warrants for $489,199. The warrants have an exercise price of $4.02 per share and expire in January 2004.

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.

During March and April 2001, the Company issued 104,571 shares of common stock with 52,286 attached warrants for total proceeds of $292,800. The warrants have an exercise price of $5.10 per share and expire in 3 years from the date of their respective issuances.

In May of 2001, the Company issued 500,000 shares to its Board of Directors' Vice Chairperson for past services, which were valued at $1.89 per share, or $949,200, and all of which was charged to operations during the year ended October 31, 2001.

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, valued at $171,744 and all of which was charged to operations during the year ended October 31, 2001.

During September and October of 2001, the Company issued to various consultants 1,175,000 shares of common stock for consulting services valued at $559,250 and all of which was charged to operations during the year ended October 31, 2001.

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 quarter 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.

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

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Common Stock Issuances During the Year Ended October 31,2000: (Continued)

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

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

During the quarter 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.

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.

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 reducing 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 above financing costs for the years ended October 31, 2002, 2001 and 2000 was $537,380, $2,045,953 and $416,667, respectively.

During the quarter ended April 2000, the Company issued 1,161,065 shares of common stock between $1.20 and $12.00 for consulting and professional services totalling $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 totalling $619,650.

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

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Stock Option Plans

- Stock Options

During 2000, the Board of Directors and the stockholders of the Company approved the 2000 Omnibus Securities Plan (the "2000 Plan"), which provides for the granting of incentive and nonstatutory options and restricted stock for up to 2,500,000 shares of common stock to officers, employees, directors and consultants of the Company.

During August of 2001, the Board of Directors of the Company approved the 2001 Stock Incentive Plan (the "2001 Plan" and together with the 2000 Plan, the "Plans"), which provides for the granting of incentive and non-statutory options, restricted stock, dividend equivalent rights and stock appreciation rights for up to 2,500,000 shares of common stock to officers, employees, directors and consultants of the Company. The Stockholders of the Company ratified the 2001 Plan in July 2002.

On February 25, 2002, the Company granted non-qualified stock options under its 2000 Plan to purchase 862,500 shares of common stock to employees and employee directors of the Company at an exercise price of $.42 per share. The options vest in four equal quarterly installments starting April 30, 2002. All options

expire on February 25, 2012. During the year ended October 31, 2002, 2,500 options were cancelled.

On February 25, 2002, the Company granted two directors options under its 2000 Plan to purchase 400,000 shares of its common stock at an exercise price of $.42 per share. The options vest in four equal quarterly installments starting April 30, 2002. These options also expire on February 25, 2012.

On February 25, 2002, the Company granted an advisory board member options under the Company's 2000 Omnibus Securities Plan to purchase 40,000 shares of its common stock at an exercise price of $.42 per share. The options vest immediately and expire ten years from the grant date. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model was $.30 per share, or $12,000.

On July 1, 2002, the Company granted its Chief Marketing Officer non-qualified stock options under its 2000 Plan to purchase 405,000 shares of common stock at an exercise price of $1.09 per share. Options covering 105,000 shares are exercisable immediately and the remaining vest in eight equal quarterly installments starting May 31, 2003. These options expire on July 1, 2012.

- Options Outside of the Plan:

On February 11, 2000, the Company granted to three directors and four employees options to acquire 1,028,750 shares of its common stock. The exercise price for the options is $4.00 per share. The options vest in four equal annual installments commencing February 11, 2000 and expire on February 11, 2010.

On July 1, 2000, the Company granted to its Executive Vice President options to purchase 210,000 shares of common stock at $4.40 per share, 140,000 of which have vested and 70,000 of which were cancelled.

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Stock Option Plans (Continued)

- Options Outside of the Plan: (Continued)

On October 27, 2000, the Company granted to a director options to purchase 275,000 shares of its common stock. The exercise price for the options is $4.00 per share. The options vested on the grant date.

On October 27, 2000, the Company granted to an employee options to purchase up to an aggregate of 50,000 shares of its common stock. The options vest and are fully exercisable upon achievement of a technological development milestone by the Company. The exercise price for the options is $5.50 per share and were to expire on October 27, 2005. These options expired during the year ended October 31, 2002

On November 30, 2000, the Company granted to two employees options to purchase 225,000 shares of its common stock at $4.00 per share. The options vested on the grant date and expire in 10 years from the grant date.

On May 15, 2001, the Company granted to a member of the Company's advisory board options to purchase 50,000 shares of common stock at $3.92 per share. The options vested on the grant date 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 options vesting and exercisable immediately and the remaining 25,000 vesting and exercisable equally on the anniversary date over the next three years. These options expire on June 7, 2011.

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. These options expire on August 3, 2011.

On February 25, 2002, the Company granted its then Chief Executive Officer options outside the Company's stock option plans to purchase 500,000 shares of its common stock at $.39. The options vest in four equal quarterly installments starting April 30, 2002. These options expire on February 25, 2012.

On February 22, 2002, the Company granted non-qualified stock options to purchase 250,000 shares of common stock to a consultant at an exercise price of $.40 per share. The options vest in five equal quarterly installments starting February 22, 2002. These options expire on February 22, 2012. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model was $.32, or $80,000. On September 11, 2002, the consulting agreement was cancelled and the Company cancelled 50,000 of the above options.

On March 22, 2002, the Company granted outside the Company's stock option plans to a director and employee who became its Chief Executive Officer on June 1, 2002, options to purchase 1,500,000 shares of its common stock at $1.02. The options vest in four equal quarterly installments starting June 1, 2002. These options were to expire on March 22, 2012. During December 2002, the above Officer terminated his employment with the Company and forfeited his 1,500,000 options.

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Stock Option Plans (Continued)

- Options Outside of the Plan: (Continued)

On March 22, 2002, the Company granted its Chief Executive Officer on that date options outside the Company's stock option plans to purchase 100,000 shares of its common stock at $1.02. The options vest immediately and expire on March 22, 2012.

On March 22, 2002, the Company granted two consultants options outside the Company's stock option plans to purchase 75,000 shares of its common stock at $1.02. The options vest immediately and expire on March 22, 2012. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model was $1.16, or $87,000.

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

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Stock Option Plans (Continued)

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

	Under the Plans Stock Options	Weighted Average Exercise Price	Outside the Pla Stock Options
Balance at October 31, 1999	-	$ -	-
Options granted - 11/01-10/31/00:			
In the 2000 plan	-	-	-
Options granted - 11/01-10/31/00:			
Outside the option plan	-	-	1,563,750
Outstanding - October 31, 2000	-	-	1,563,750
Options granted - 11/01 - 10/31/01:			
In the 2000 plan	516,000	3.92	-
In the 2001 plan	750,000	.27	-
Options granted - 11/01 - 10/31/01:			
Outside the option plan	-	-	375,000
Options expired/cancelled:			
In the 2000 plan	(3,750)	3.92	-

Options exercised in the 2001 plan	(750,000)	.27	-
Outstanding - October 31, 2001	512,250	$3.92	1,938,750
Options granted - 11/01 - 10/31/02:			
In the plans	1,707,500	.58	-
Options granted - 11/01 - 10/31/02:			
Outside the option plan	-	-	2,425,000
Options expired/cancelled:			
In the plans	(51,000)	3.74	-
Outside the plans	-	-	(171,250)
Options exercised in the plans	-	-	-
Outstanding - October 31, 2002	2,168,750	$1.29	4,192,500
Exercisable at October 31:			
2002	1,248,125	$1.20	2,339,792

The exercise price for options outstanding as of October 31, 2002 ranged from $.39 to $4.40.

At October 31, 2002, 331,250 options are available under the 2000 Plan and -0- options are available under the 2001 Plan, 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

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Stock Option Plans (Continued)

The weighted average fair value at date of grant for options granted during 2002 and 2001 was $.72 and $1.82 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes option pricing model utilizing the following assumptions:

	2002	2001
Risk-free interest rates	5.00% to 5.50%	5.00% to 5.50%
Expected option life in years	5	5
Expected stock price volatility	51.65% to 53.89%	47.25% to 96.25%

Expected dividend yield	0%	0%

Had the Company elected to recognize compensation cost based on the fair value of the options at the date of grant, as prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", net loss in 2002, 2001 and 2000 would have been $12,093,673, $13,838,750 and $16,249,000, or $.24, $.51 and $ .75 per share, respectively

Warrants Granted

On November 5, 2001, the Company granted two companies warrants to purchase 200,000 shares of its common stock at an exercise price of $.51. The warrants vested immediately and expire on November 5, 2005. The fair value of stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.33 per share, or $66,000.

On February 11, 2002, the Company granted a company warrants to purchase 300,000 shares of its common stock at an exercise price ranging from $.75 to $2.25. The fair value of stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $4,500.

On July 30, 2002, the Company granted a consulting company warrants to purchase 1,000,000 shares of its common stock at an exercise price of $.75. These warrants replaced warrants covering 1,000,000 shares of common stock issued to the consulting company in May 2001 that had exercise prices of $2.50 (as to 500,000 shares), $5.00 (as to 250,000 shares) and $10.00 (as to 250,000 shares). The fair value of stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.47 per share, or $467,370.

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Warrants

At October 31, 2002, the Company had outstanding warrants to purchase shares of common stock as follows:

Grant Date	Number of Shares	Exercise Price	Expiration Date
June 7, 2000	50,000	$ 7.00	June 7, 2003
June 7, 2000	50,000	8.50	June 7, 2003
June 7, 2000	50,000	10.00	June 7, 2003

June 7, 2000	50,000	11.50	June 7, 2003
November 17, 2000	1,000,000	6.00	November 17, 2003
November 17, 2000	88,000	Lesser of $6.00 or 50% of market ($.45 at 10/31/02)	November 17, 2003
March 12, 2001	67,586	5.10	March 12, 2004
March 12, 2001	87,357	4.02	March 12, 2004
June 14, 2001	50,000	2.50	June 14, 2006
June 14, 2001	25,000	5.00	June 14, 2006
June 14, 2001	25,000	10.00	June 14, 2006
November 5, 2001	200,000	.51	November 5, 2005
February 11, 2002	50,000	.75	February 11, 2004
February 11, 2002	50,000	1.25	February 11, 2004
February 11, 2002	100,000	1.75	February 11, 2004
February 11, 2002	100,000	2.25	February 11, 2004
July 30, 2002	1,000,000	.75	May 30, 2007
	3,042,943	$0.20-$11.50	June 7, 2003 - May
Exercisable at October 31, 2002	3,042,943		

Warrants Exercised

During the year ended October 31, 2002, warrants to purchase 2,912,000 shares of common stock were exercised at $.25 per share, resulting in proceeds totaling $728,000.

During March 2002, warrants to purchase 1,000,000 shares of common stock were exercised on a cashless basis, for which the Company issued 736,008 shares of common stock.

NOTE 12 - STOCKHOLDERS' EQUITY (Continued)

Net Loss Per Share

Securities that could potentially dilute basic earnings per share ("EPS"), which 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	3,042,943
Options to purchase common stock	6,361,250

Convertible notes payable and accrued interest	2,411,921
Series B Preferred stock	7,094,000
Total as of October 31, 2002	18,910,114
Substantial issuances after October 31, 2002 through January 23, 2003:	
Common stock issued in connection with consulting agreements	300,000
Convertible notes payable and accrued interest	475,733
Sale of common stock for cash	4,398,996
Common stock issued for deferred salaries and for past services	160,585

NOTE 13 - INCOME TAXES

At October 31, 2002, the Company had approximately $37,726,000 of net operating loss carryforwards for income tax purposes which expire as follows:

Year	Net Operating Losses
2011	$ 1,583,000
2012	4,714,000
2018	4,472,000
2019	1,698,000
2020	4,759,000
2021	9,503,000
2022	10,997,000
	$37,726,000

NOTE 13 - INCOME TAXES (Continued)

At October 31, 2002 and 2001, the Company has a deferred tax asset of approximately $18,062,000 and $14,822,000, respectively, representing the benefits of its net operating loss and certain expenses not currently deductible for tax purposes, principally related to the granting of stock options and warrants and the difference in tax basis of certain intangible assets. The Company's deferred tax asset has been fully reserved by a valuation allowance

since realization of its benefit is uncertain. The difference between the Federal statutory tax rate of 34% and the Company's effective Federal tax rate of -0-% is due to the increase in the valuation allowance of $3,787,000 (2002), $4,204,000 (2001) and $4,642,000 (2000). The Company's ability to utilize its carryforwards may be subject to any annual limitation in future periods, pursuant to Section 382 of the Internal Revenue Code of 1986, as amended.

NOTE 14 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

Consulting Agreement

On February 11, 2002, the Company entered into a one-year consulting agreement for financial communications services, pursuant to which the Company agreed to pay the consultant $10,000 in cash per month. The consulting agreement provides that the Company may terminate the consulting services at any time following 90 consecutive days of representation by the consultant. Pursuant to the agreement, the Company granted the consultant warrants to purchase 300,000 shares of its common stock at exercise prices ranging from $.75 to $2.25. All of the warrants are exercisable immediately, hold piggy-back registration rights and expire two years from the grant date. The fair value of the warrants is estimated on the date of grant using the Black-Scholes option pricing model is $4,500.

On March 22, 2002, the Company entered into a one-year consulting agreement with an individual for advisory services relating to the Company's technology for transmitting high speed data over extended ranges of copper telephone wire. The Company agrees to pay the consultant $15,000 per month and options to purchase 50,000 shares of its common stock at an exercise price of $1.02. All of the options are exercisable immediately and expire ten years from the grant date. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model is $1.16, or $58,000.

On July 17, 2002, the Company entered into a one-year consulting agreement with an individual for consulting, advisory and related services. The Company agreed to pay the consultant a one-time payment of $250,000 in the event the Company receives gross revenue in the amount of at least $2,250,000 from the distribution of the Company's motion picture.

On July 30, 2002, the Company entered into a five-month consulting agreement with a consulting company for consulting and advisory services in connection with strategic business planning. The Company agreed to issue 350,000 restricted shares of the Company's common stock and warrants to purchase an aggregate of 1,000,000 shares of the Company's common stock at an exercise price of $.75 per share. All of the warrants are exercisable immediately and expire five years from the grant date. The fair value of warrants estimated on the date of grant using the Black-Scholes option pricing model is $467,370.

NOTE 14 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Employment Agreements

On February 25, 2002, the Company entered into a one year employment agreement with its Vice President and Secretary. The agreement provides for the Company to pay a base salary of $13,383 per month. The employee may receive an annual bonus to be determined at the sole discretion of the Board of Directors.

On March 22, 2002, the Company entered into a new three-year employment agreement with its Chief Executive Officer at the time, Ray Willenberg, Jr. Pursuant to the agreement, Mr. Willenberg continued to serve as the Company's Chief Executive Officer until June 1, 2002, at which time Mr. Willenberg stepped down as CEO and became an Executive Vice President of the Company. The employment agreement provides for a base salary of $14,583 per month and options to purchase 100,000 shares of common stock at $1.02 per share. All options are exercisable immediately and expire ten years from the grant date. In addition, the employment agreement provides for a bonus based on monies raised by the Company from debt or equity offerings.

On March 22, 2002, the Company entered into a three-year employment agreement with its then Chief Executive Officer, Thomas Cooper. Pursuant to the agreement, Mr. Cooper worked part-time until June 1, 2002, at which time he assumed the role of Chief Executive Officer. The Company agreed to pay a base salary of $10,417 per month prior to June 1, 2002 and $20,833 per month after June 1, 2002. In addition, Mr. Cooper may receive an annual bonus based on his performance as determined at the sole discretion of the Board of Directors. Pursuant to the terms of the agreement, Mr. Cooper was issued options to purchase 1,500,000 shares of the Company's common stock at $1.02 per share. The options vest in twelve equal quarterly installments starting June 1, 2002. These options were to expire on March 22, 2012 but were forfeited subsequent to October 31, 2002 when Mr. Cooper terminated his employment with the Company.

On July 1, 2002, the Company entered into a three-year employment agreement with its then Chief Marketing Officer, Brad Ketch. Brad Ketch subsequently became the Company's Chief Executive Officer and entered into a new employment agreement. Pursuant to the agreement, the Company will pay Mr. Ketch a base salary of $15,000 per month and an annual bonus based upon his performance, as determined at the sole discretion of the Board of Directors. In addition, the employment agreement provides non-qualified stock options to purchase 405,000 shares of common stock at $1.09 per share. Options with respect to 105,000 shares are exercisable immediately and the remaining vest in eight equal quarterly installments, starting May 31, 2003. These options expire on July 1, 2012.

NOTE 14 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (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 of approximately $120,000 for the first year and $156,000 the following years. During August 2001, the Company reduced its rental space and amended its lease agreement in Pleasanton, along with other proactive measures to re-organize its technology development effects, and is currently in negotiation to sublease a portion of this space. The amended lease provides for a minimum annual rental at approximately $43,000 for the first year, $56,000 for the second year and $69,240 in the last year.

The Company's future minimum lease payments are as follows:

Years Ending October 31:	
2003	$ 119,448
2004	106,790
2005	5,065
	$ 231,303

Rent expense for the years ended October 31, 2002, 2001 and 2000 was $115,500, $136,000 and $41,000, respectively.

Concentration of Credit Risk

The Company maintains cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000 per institution. From time to time, the Company's balances may exceed these limits. At October 31, 2002 and 2001, uninsured cash balances were approximately $212,000 and $227,000, respectively. The Company believes it is not exposed to any significant credit risk for cash.

NOTE 14 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Legal Proceedings and Settlements

On February 4, 2002, a lawsuit was filed against the Company by Creditors Adjustment Bureau, Inc., a California corporation, who was allegedly assigned rights to any judgement collected on amounts allegedly owed to Arter & Hadden, LLP, the Company's former legal counsel. The plaintiff seeks damages in the amount of $110,560, plus 10% interest, costs of the suit and reasonable attorney's fees. In October of 2002, the Company reached an agreement to settle the above lawsuit. The Company agreed to pay Creditors Adjustment Bureau, Inc. an aggregate of $80,000 in eight monthly installments beginning in October 2002, or an aggregate of $70,000, if the Company pays the entire amount due on or before December 31, 2002. The Company has paid $37,500 as of October 31, 2002 and the remaining balance has been accrued as of October 31, 2002.

On June 28, 2002, the Company entered into a settlement agreement and mutual releases in certain litigation filed by the former owners of New Wheel and former officers of the Company ("Blevins and Shepperd"). Under the terms of the settlement agreement, Blevins and Shepperd agreed to return to the Company 2.2 million shares of the Company's common stock previously issued to them in connection with the acquisition of New Wheel (Note 3). The return of the 2.2 million common shares is conditioned on the Company, or its assignee, purchasing from Blevins and Shepperd a total of 500,000 shares of the Company's common stock for $375,000, payable in four equal installments of $93,750, due on August 1, 2002, September 15, 2002, November 1, 2002 and December 15, 2002.

The Company assigned to a third party all of its rights to purchase the 500,000 shares of common stock. As of October 31, 2002, $187,500 was paid to Blevins and Shepperd and the balance of $187,500 was subsequently paid during December of 2002. Accordingly, in December of 2002, the 2.2 million shares of common stock were returned to the Company and were subsequently cancelled. The Company intends to account for this settlement agreement during the quarter ended January 31, 2003.

On August 2, 2002, a lawsuit was filed in California Superior Court in Santa Clara County against New Visual Corporation and NV Technology, by Brad Lundahl (d/b/a Lundahl Engineering) alleging that the Company breached a contract for consulting services it entered into with Mr. Lundahl in July 2000, by failing to pay Mr. Lundahl for his services as provided under the agreement. The lawsuit sought to compel arbitration based upon a provision mandating arbitration contained in the contract in question. The Company has agreed to arbitrate and intends to vigorously dispute whether any amount is due to Mr. Lundahl. The amount in controversy is not stipulated in the lawsuit, but is believed to be approximately $45,000. The Company does not believe that the resolution of this matter will have a material adverse effect on the Company's financial condition or results of operations.

NOTE 15 - SEGMENT INFORMATION

Summarized financial information concerning the Company's reportable segments is

shown in the following table:

For the Year Ended October 31, 2002:

	Telecommunication Business	Entertainment Business	Unallocable
Net Sales	$ -	$ -	$ -
Operating Loss	$(1,869,946)	$ -	$(5,443,526)
Depreciation	$ 14,913	$ 14,792	$ 47,555
Total Identifiable Assets	$ 5,783,427	$ 2,226,787	$ 322,088

For the Year Ended October 31, 2001:

	Telecommunication Business	Entertainment Business	Unallocable
Net Sales	$ -	$ -	$ -
Operating Loss	$ (846,902)	$ -	$ (8,645,682)
Depreciation	$ 14,007	$ 16,893	$ 87,793
Total Identifiable Assets	$ 57,723	$ 2,069,457	$ 664,117

For the Year Ended October 31, 2000:

	Telecommunication Business	Entertainment Business	Unallocable
Net Sales	$ -	$ 12,200	$ -
Operating Loss	$(8,494,636)	$ -	$ (3,795,033)
Depreciation	$ 7,699	$ 74,641	$ 14,832
Total Identifiable Assets	$ 67,521	$ 865,659	$ 499,482

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

NOTE 16 - SUBSEQUENT EVENTS

Common Stock

As of January 21, 2003, the Company has received approximately $769,386 for the issuance of 4,398,996 shares of common stock to investors.

The Company has subsequently issued 325,000 shares of its common stock in connection with various consulting agreements and services.

On January 21, 2003 the Company issued 135,585 shares of common stock to various individuals of the Company in satisfaction of $85,000 in compensation.

Convertible Promissory Notes

During November 2002, the Company entered into two convertible promissory note agreements with three individuals, totaling $85,000. The Company agreed to pay the principal and an amount equal to 50% of the principal sum, if the Company reaches certain milestone from the distribution of its motion picture, which is currently in production. 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 a conversion price of $.39.

During November through December 2002, several convertible promissory noteholders converted principal and unpaid interest on several convertible promissory notes, totaling $198,000, of which $99,000 represented accrued interest, into 475,733 shares of the Company's common stock.

Consulting Agreements

In January 2003, the Company entered into a one-year consulting agreement for financial consulting services, pursuant to which the Company agreed to issue 1,000,000 shares of the Company's common stock to a principal of the consultant. The consulting agreement provides that either party may terminate the consulting services at any time upon thirty days' written notice to the other party.

In January 2003, the Company entered into a one-year consulting agreement for financial consulting services, pursuant to which the Company agreed to issue to each of two principals of the consultant 1,000,000 shares of the Company's common stock. The consulting agreement provides that either party may terminate the consulting services at any time upon thirty days' written notice to the other party.

New Employment Agreement

On December 2, 2002, the Company entered into a new three-year employment agreement with its Chief Marketing Officer replacing the executive's former employment agreement. Under the terms of the new agreement, the executive will become the Company's President and Chief Executive Officer and receive a base salary of $20,833 per month. In addition, the employment agreement provides that the executive will be entitled to receive an annual bonus at the discretion of the Board of Directors of the Company. Pursuant to the terms of the agreement, the executive was issued options to purchase 1,500,000 shares of the Company's common stock at $.64 per share. The options vest in twelve equal, quarterly installments starting March 1, 2003. The options expire on December 2, 2012.

F-44

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

NOTE 16 - SUBSEQUENT EVENTS (Continued)

Legal Disputes

- Gary Tomsic Dispute

In August 1998, the Company authorized the issuance to Gary Tomsic of an option to purchase 130,000 shares of the Company's common stock in satisfaction of monies owed to Tomsic for services rendered to the Company. Tomsic exercised the option in 1999 and 55,000 shares were delivered. A dispute arose between the parties concerning their respective obligations, but did not result in litigation. In December 2002, the Company and Tomsic entered into a settlement agreement and mutual release. In accordance with the settlement agreement, the Company paid $15,000 to Tomsic and issued to him 51,562 shares of common stock. As of October 31, 2002, the Company has accrued the $15,000 and the related shares of common stock.

- Douglas Furth Dispute

In September 2002, the Company entered into a consulting agreement with an individual, pursuant to which, among other things, the individual agreed to provide certain consulting services and the Company agreed to pay for these services by, among other things, issuing 200,000 shares of common stock. A dispute arose between the parties concerning their respective obligations, but did not result in litigation. In December 2002, the Company and the individual entered into a settlement agreement and mutual release. In accordance with the settlement agreement, the Company has agreed to issue 150,000 shares of common stock in three equal installments due on January 15, February 10 and March 10, 2003. The settlement agreement cancelled the consulting agreement and provided for additional shares to be issued in the event of any failure to perform by the Company.

f-45

NEW VISUAL CORPORATION AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended			
	January 31	April 30	July 31	October 31
2002:				
Revenues	$ --	$ --	$ --	$ --
Net loss	$ (1,942,000)	$ (3,182,000)	$ (2,283,000)	$ (2,060,000)
Loss per share - basic and diluted	$ (0.06)	$ (0.08)	$ (0.05)	$ (0.04)
2001:				
Revenues	$ --	$ --	$ --	$ --
Net loss	$ (2,155,000)	$ (1,232,000)	$ (4,654,000)	$ (3,835,000)
Loss per share - basic and diluted (a)	$ (.09)	$ (.05)	$ (.18)	$ (.13)
2000:				
Revenues	$ --	$ 6,800	$ 900	$ 4,500
Net loss	$ (284,000(a))	$ (8,546,000)	$ (1,564,000)	$ (2,331,000)
Loss per share - basic and diluted (a)	$ (.02)	$ (.39)	$ (.07)	$ (.12)

(a) Per common share amounts for the quarters and full year have been calculated separately. Accordingly, quarterly amounts do not add to the annual amount because of differences in the weighted average common shares outstanding during each period due to the effect of the Company's issuing shares of its common stock during the year.

Unaudited interim financial information plus all adjustments , which in the opinion of management, are necessary to a fair statement of the results of the interim period presented. All adjustments are of a normal recurring nature.